3 CONCLUSION:

Do Europe and America Still Need Each Other?

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As the world grapples with geopolitical shifts, Europe and the United States are reassessing their economic dependencies. Faced with Russia's full-scale invasion of Ukraine in 2022, they mobilized their economic power to support Kyiv, sanction Moscow, reduce their dependencies on Russian energy flows, and disentangle themselves from the Russian economy. Each also took steps to "de-risk" its economy from critical dependencies on Beijing for essential goods, from critical minerals to pharmaceuticals, even as both maintain significant commercial ties with China. "Friend-shoring" became the slogan of the day, as the U.S. and Europe turned to each other to mitigate their excessive dependencies on autocratic actors. Our past annual surveys offer rich detail on these respective efforts.[1]

Now, however, in a transatlantic climate marked by trade tensions and questions about the strength of the security partnership, a growing chorus of voices argues that the other side of the Atlantic has become more problem than solution. There is concern that deep transatlantic integration may be less a source of mutual strength than a potential "weapon" of "subordination." Some Americans talk as if the United States has little need for Europe; some Europeans say it is time to "de-risk" and become "autonomous" from America. EU leaders in January 2026 called for a "systematic reduction of dependencies from the U.S. in the medium and long term."[2]

Do America and Europe still need each other? Can each side of the Atlantic really afford to go it alone?

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This study offers substantial evidence that Europe and the United States each gain considerably from a flourishing transatlantic economy. Moreover, those dense commercial bonds are reinforced by deep security ties that anchor the Atlantic alliance. Europeans are right to want to mitigate any excessive dependencies they may have – from whatever source. But they are wrong to think that decoupling from America would cost them little or bring them more. Americans are right to want Europeans to do more for their own security. But they are wrong to think they don't need Europe, or that they can easily afford to advance American interests in a fractious world without their transatlantic partners.

EUROPE NEEDS AMERICA

As we have shown, commercial ties with America are critical for Europe's trade, investment, technology, and energy security. The EU exhibits low overall trade dependence on the United States because most products either account for only a small percentage of total imports, are not limited to one or a few suppliers, or are supported by substantial production within the EU, which reduces the risk of supply shortages. However, there are critical products where both the import volume and the concentration on U.S. imports are high. These include certain food items like soybeans, energy resources like LNG, software for critical digital services, and strategic raw materials like molybdenum ores, used in steel production and the chemical industry. The EU also relies on the U.S. for specific chemical and pharmaceutical products such as hormone preparations and vaccines, and specialized equipment and components for industry, such as medical products and parts for aircraft manufacturing.[3]

In several strategic areas, de-risking from America would mean increasing already substantial risks from China. The EU is more exposed to China than the United States for both exports and imports. Moreover, the composition of EU imports from China has become decidedly more "strategic," shifting from textiles, shoes, toys, and furniture to electronics, pharmaceutical ingredients, chemicals, rare earths, and other critical raw materials. Chinese companies are becoming more competitive, in many cases thanks to massive subsidies, in areas of traditional EU export strength. They are exporting items higher up on the technological ladder to the EU that

the EU previously exported to China. China is the source of approximately one-third of over 200 products in sensitive industrial ecosystems, for which the EU depends on third countries. The EU's import dependence on China is 90% or higher for certain pharmaceuticals, chemicals, and raw materials. Moreover, most of the EU's strategic dependencies on China – including magnesium, permanent magnets, photovoltaic cells, and certain antibiotics and hormones – have no substitutes.[4] A Europe less connected to America is likely to be more bound to China – with all the economic and geostrategic consequences such a turn would imply.

Militarily, each side of the Atlantic wants Europe to do more. European countries have become the primary providers of economic and military support for Ukraine. Europe's NATO members have committed to raise their defense spending to 3.5% and their spending on security-enhancing infrastructure to another 1.5% of their GDP. Over the next five years, Europe's defense spending is expected to grow by up to $800 billion a year, which could boost its GDP one percent annually for the next five years.[5] But the United States provides unique capabilities for Europe's defense that likely would take another decade and as much as 10% of its GDP to replicate. These include airborne and geospatial intelligence, surveillance and reconnaissance (ISR), command and control (C2), ballistic missile defense, strategic airlift, ground-based, long-range precision strike missiles, and hyperscale cloud-computing capacity. Most of these software-dependent systems require regular updates, data connections, and often remote maintenance by the original supplier. And there is no European replacement for the U.S. nuclear umbrella; the UK and French deterrents are more complements than substitutes.[6]

AMERICA NEEDS EUROPE

America also needs Europe. European governments and private investors own $10.4 trillion (15.3%) of U.S. stocks, $3.4 trillion (11%) of U.S. government securities, and $2.9 trillion (11.6%) of U.S. corporate bonds. That represents 48% of all foreign-owned U.S. stocks, 32% of all foreign-owned U.S. Treasury and agency securities, and 57% of all foreign-owned corporate debt.[7] EU governments, along with the UK and Canada, hold $1.5 trillion to $2 trillion in U.S. Treasury securities; nearly one-third needs refinancing each year.[8] European private investors also own 19 times more U.S. corporate bonds, 8 times more U.S. stocks, and roughly as many U.S. Treasury securities as their governments do.[9] If a critical mass of investors stopped purchasing or refinancing, or if they were to sell U.S. assets, this would rattle stock and bond markets. U.S. corporations with large European-held stock ownership and European-held corporate bonds would suffer. Those potentially at risk include major financial institutions, computer and electronics manufacturers, information and telecom services providers, broadcasting and publishing, chemicals, pharmaceuticals, and oil and natural gas processing firms.[10]

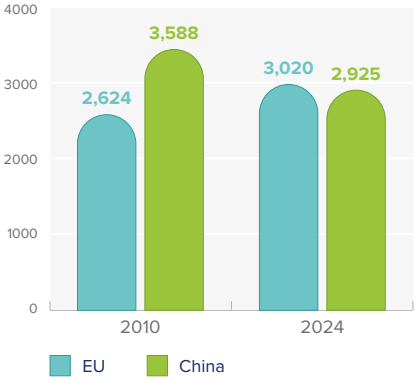
Europe is America's largest commercial partner and largest source of foreign investment in the U.S. economy. Without it, Americans would be less prosperous. American consumers might be able to live without French champagne, Italian pasta, or German luxury cars, but it would be much harder for the U.S. to do without British parts for F-35 fighter jets or Dutch lithography equipment producing the high-end microchips that power AI and high-performance computing – and for which there is no substitute. European companies supply the active ingredients (APIs) for nearly half of all brand-name drugs and 90% of the insulin that Americans use every day.

A Europe less connected to America is likely to be more bound to China – with all the economic and geostrategic consequences such a turn would imply.

TABLE 1A.

Strategic Imports: The U.S. Needs the EU More and China Less

(Number of Product Categories, 50% or More Import Reliance, 2010-2024)

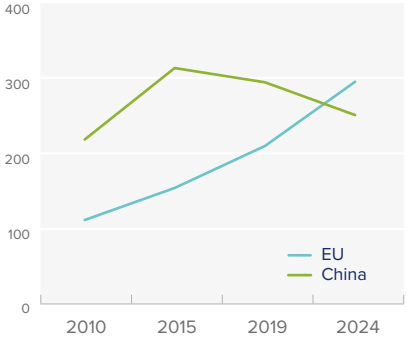


Sources: U.S. Department of Commerce; Institut der deutschen Wirtschaft.

TABLE 1B.

Strategic Imports: Value of U.S. Imports from the EU vs. China

($Billions, Product Categories With 50% or More Import Reliance, 2010-2024)



Sources: U.S. Department of Commerce; Institut der deutschen Wirtschaft.

They provide over a third of U.S. chemical imports critical to a range of industries. American factories rely heavily on European precision machinery for which there are few, and in some cases no, equivalent substitutes.[11]

In fact, U.S. companies rely on European suppliers for 100% of their imports of 293 different product groups. European suppliers provide 90% of all U.S. imports for another 726 product groups and 75% for 1,440 further product groups. These product groups are widely distributed across the entire U.S. economy, ranging from industrial capital and intermediate goods to food and textiles. They are crucial for U.S. corporate supply chains, and some are strategically important to U.S. security and defense. They are not easily replaceable in the short- to medium-term, if at all. Nearly every second dollar's worth of goods imported by the U.S. from the EU is used to purchase products where the EU accounts for at least half of all U.S. imports, and that dependency has increased significantly since 2010. Moreover, given U.S. efforts to de-risk from China, U.S. dependence on the EU across these categories is now higher than its dependence on China.[12]

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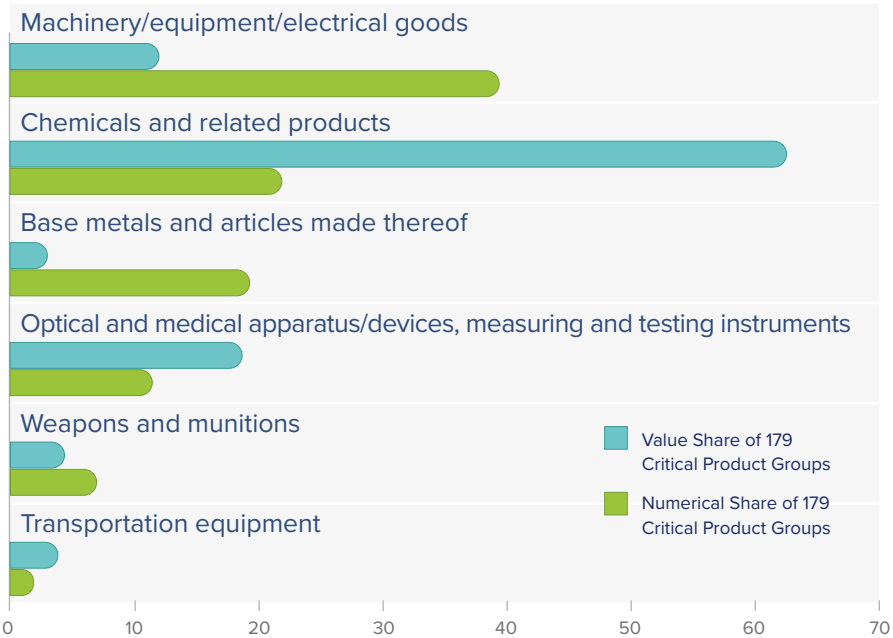
There is no doubt that the U.S. relies heavily on China for supplies of rare earths – the 17 elements needed for clean energy breakthroughs and advanced manufacturing, from smartphones and hard drives to weapons systems. China was the largest source of U.S. imports of 30 of 44 critical minerals in 2024.[13] But the popularized characterization that the U.S. is reliant on China for strategic resources and only reliant on Europe for "Gucci handbags"[14] is simply not true.

The United States also relies on its engagement in Europe to serve its own strategic interests. The U.S. military presence in Europe has not only anchored transatlantic security for over eight decades, it is essential for U.S. power projection to the Middle East, Africa, and Central Asia. European allies provide the United States with extensive access, basing, and overflight rights as well as valuable intelligence cooperation. If the United States were not in NATO, it would likely need to increase its defense budget by an estimated $100-200 billion annually to fill the security vacuum left by a fragmented Europe.[15]

Europe and America are constituent parts of a densely intertwined $9.8 trillion transatlantic economy and members of the most successful alliance in history. Each is indispensable to the other. Our companies not only profit from those interconnections, they use the transatlantic economy as a common geoeconomic base to give themselves an edge in a competitive world. Our societies prosper and are more secure as a result. Inevitable transatlantic differences should not distract us from the fact that ours is the most mutually beneficial relationship on the planet. Divorce is something we literally cannot afford.

TABLE 2.
Critical U.S. Imports from the EU, by Product Group



As of 2024. Note: Shares by number and value of 179 strategic industry-related product groups with a US import share from the EU of at least 50% consistently over the past five years. Sources: U.S. Department of Commerce, August 2025; Institut der deutschen Wirtschaft.

Notes

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