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# Europe Is Stuck With America

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Economic Ties Will Be Hard to Unwind

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# Europe Is Stuck With America

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## Economic Ties Will Be Hard to Unwind

**G**iven that U.S. President Donald Trump spent the first year of his second term imposing steep tariffs on European goods, toying with the idea of withdrawing U.S. troops from Europe, and even threatening to “take control” of European territory, European leaders have an urgent need to reduce their countries’ economic and military dependence on the United States. The United States today is Europe’s largest export market, accounting for more than 20 percent of European exports in early 2026, as well as the continent’s dominant supplier of risk capital for new business ventures and the source of military capabilities that are crucial to deterring Russia. There are sound reasons for optimism that European governments can reduce their military reliance: defense spending is rising, particularly in countries in northern and eastern Europe, and Europe is funding Ukraine’s defense against Russia while pursuing greater integration with Ukraine’s growing military-industrial sector. But reducing Europe’s economic and technological exposure will be far more difficult.

In principle, European governments could phase out U.S. goods, services, and currency in the public sector and restrict or ban their use in the private sector, thereby limiting the opportunities for a U.S.

administration to weaponize European dependence. But this is easier said than done. To persuade private companies to rely less on U.S. currency, financial payment systems, trade, and technology, European governments would need to provide European alternatives that are just as convenient, cost-effective, and technologically sophisticated as U.S. offerings. Such alternatives are not available today. For Europe to provide them quickly might require prohibitively expensive tradeoffs: sacrificing economic growth and gains in productivity or becoming dependent on other suppliers, particularly those in China. Without a compelling path away from reliance on the United States—the kind of path Europe has already taken to mitigate its military dependence—the continent will have little choice but to accept the transatlantic economic relationship largely as it is for the foreseeable future.

### THE DOMINANT DOLLAR

European governments are increasingly uneasy about the dominant role of the U.S. dollar in the global financial system, given U.S. administrations' consistent willingness to wield access to dollar liquidity as a sanctions weapon. But there is little they can do to reduce the dominance of the dollar, at least in the near term. The European Central Bank has renewed its efforts to promote the euro, including by expanding arrangements for currency swaps and repurchasing with other central banks, but the EU lacks the political and fiscal integration necessary to create the deep, liquid debt market that would make the euro an attractive alternative to the dollar among global investors. For now, the ease of dollar-based cross-border transactions and the dollar's global scale will keep most private actors from switching to other currencies.

Nor is it likely that European countries can easily curtail the use of U.S. cross-border payment systems in their increasingly cashless economies. Visa and Mastercard account for approximately two-thirds of card transactions in the euro area. The early dominance of the United States and the U.S. dollar in new stablecoin and token

technologies may only deepen this dependence. Europe has long struggled to scale up local private payment technologies that might compete with those of U.S. firms and to integrate country-specific digital transfers, in-store payment, and e-commerce alternatives. As a result, there is currently no comparable European technology that could replace U.S. payment systems.

This may change in the future. The European Central Bank is working on a digital euro that would be available for retail transactions and offer a risk-free means for private businesses and financial institutions to settle blockchain-based transactions. Together, these projects could lay the foundation for an independent European cross-border payment system—but this system is not expected to be ready for use until the end of this decade.

## ENERGY LIFELINE

Nearly 25 percent of Europe's energy comes from natural gas, and in this area Europe may grow more dependent on the United States, not less. Before Russia's full-scale invasion of Ukraine in early 2022, Russian pipelines provided 40 to 45 percent of Europe's imports. But in the years since, the EU has reduced its intake of Russian gas by roughly 75 percent. This would not have been possible without its imports of U.S. liquefied natural gas (LNG), which more than quadrupled between early 2022 and 2025 and, until the outbreak of the war in Iran this year, helped bring EU gas prices back down after a spike in 2022–23. The United States and nearby Norway are now the EU's most important natural gas suppliers.

Given that EU countries have agreed to end all remaining Russian natural gas imports by late 2027, U.S. imports are likely to become even more important. Brussels must quickly find replacements for Russian natural gas or face rising prices. It may be possible to make up some of the difference with additional pipeline supply from Norway, Algeria, or the eastern Mediterranean, but the vast majority of the

shortfall will have to be covered by LNG imports. War in the Middle East makes this challenge even greater. If Iran's retaliatory strikes on Qatar's LNG facilities cause lasting damage, most of the EU's LNG will need to come from the United States. In short, because Europe will hold the line on eliminating Russian gas imports, the continent's dependence on U.S. supply will grow.

Washington is well aware of Europe's energy vulnerability. The Turnberry trade agreement, which the EU negotiated with the Trump administration last year, includes provisions for Europe to import more American LNG and other fossil energy, in addition to setting a 15 percent cap on U.S. tariffs on European exports. When the European Parliament was considering ratification of the Turnberry deal in March, the U.S. ambassador to the EU, Andrew Puzder, told the *Financial Times*, "I don't know what will happen with respect to energy if they don't go forward with the agreement." He added that "there are other buyers out there." Bowing to the Trump administration's implicit threat to weaponize Europe's energy dependence is worrisome for the EU, but it is likely to approve the deal in the interest of businesses across the continent and of the overall stability of the transatlantic relationship.

## BUYING AMERICAN

Since at least 2016, protectionist U.S. policies have upended the transatlantic trade in goods as European and American firms contended with the volatility of actual and threatened tariffs in key sectors such as automobiles, auto parts, pharmaceuticals, and semiconductors. The United States' 50 percent tariff on imports of EU steel, aluminum, and copper, in particular, pushed up manufacturing costs at U.S. plants and contributed to a highly uncertain transatlantic business environment. Lacking clarity about future tariff developments, many EU and U.S. companies have prudently postponed new capital investments despite Washington's urging that they invest more in the United States.

Once the Turnberry agreement is finally ratified by the EU, locking in U.S. tariff rates on a host of EU goods, transatlantic trade conditions should stabilize. Yet the bloc has also been motivated to seek new trade opportunities and diversify away from the United States by aggressively pursuing free trade agreements with other countries. Now that the United States has essentially withdrawn from traditional rules-based trade liberalization, many potential trade partners may view the EU as the most attractive alternative to the United States and China. Brussels has been able to exploit this newfound status, reaching free trade agreements with Australia, India, Indonesia, and the South American bloc Mercosur—together representing more than two billion consumers, most of them in emerging markets—within the past few months. This not only provides EU exporters with new markets but also offers them some competitive advantage over Chinese firms, which still face higher tariffs in these markets than European companies will under the new trade pacts.

Yet all these new free trade agreements will not enable the EU to dramatically reduce its trade and investment reliance on the United States. In 2024, the bloc's total goods and services exports to the United States amounted to around \$920 billion, dwarfing EU exports to Australia (\$40 billion), India (\$81 billion), Indonesia (\$16 billion), and Mercosur (\$31 billion). The EU and the United States are not only each other's largest traditional trading partner but also each other's largest investment destination, and the place where multinational firms earn most of their overseas profits. Expanding the EU's global network will gradually diversify the continent's overall trade flows and help mitigate some of the bloc's concerns about its supply of critical minerals, but the sheer volume of U.S.-European trade and investment leaves Europe with little prospect of meaningfully reducing the importance of this relationship anytime soon.

## OUT OF THE TECH RACE?

Europe is also in danger of remaining under the thumb of large U.S. technology and Internet services firms. The continent failed in the early Internet era to produce and nurture globally competitive firms on par with the United States' Amazon, Google, Meta, or Microsoft. Today, Europe relies on their services for many business and government operations but is not likely to benefit from their massive capital investments in artificial intelligence. As AI advances, the EU may once again end up primarily a buyer, rather than a provider, of cutting-edge technology. The bloc's tech sovereignty package, expected to be presented by the European Commission this spring, aims to lower the continent's reliance on non-European technologies, primarily cloud computing, AI, and semiconductors. But realizing this goal requires tradeoffs. Making European digital goods and services competitive with U.S. technology companies' commercial offerings is an expensive undertaking, and the costs must be covered either by European taxpayers or by European firms, reducing their overall ability to invest in these crucial sectors.

Dependence on U.S. technology companies is politically sensitive in Europe, and a backlash is brewing. The French government, for instance, recently ordered its public servants to stop using the U.S. video service providers Zoom and Microsoft Teams and use a domestic alternative instead. Other European public institutions and agencies have also moved their operations to cheaper, non-American, open-source software. And European regulators have adopted more far-reaching measures to confront U.S. tech firms, including national bans on children's social media use and EU digital platform rules that impose liability, content moderation, platform transparency, anti-bundling, and fair competition regulations on providers. Regulatory crackdowns on American tech firms are popular with European voters, and are therefore likely to continue, even if they cause friction with Washington.

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Europe's economic dependence is not as great a source of fear as its military dependence.

Regulatory scrutiny, however, is not the same as reducing the dominance of U.S. companies in Europe's cloud computing infrastructure, business software, semiconductor design, and, now, AI. Amazon, Google, and Microsoft currently supply two-thirds of Europe's cloud market. Three quarters of European firms—and nearly all firms in Ireland and the Nordic countries—run on U.S. software products. American firms also dominate cybersecurity, providing many EU firms and governments crucial support in improving resilience against Russian cyberattacks and other forms of hybrid warfare.

Individual European technology firms, such as the French AI company Mistral, may find that they have a commercial advantage in the EU market since some regional customers, including governments, put a premium on technological autonomy from the United States. Yet the vast majority of public and private consumers will not be willing or able to pay the higher fees charged by European tech companies for the sake of such independence; for businesses, doing so could compromise their commercial viability and their ability to integrate with customers that rely on U.S. products. The incumbent firms' economies of scale, the utility of joining a platform with a large user base, and the widespread familiarity with U.S. products among European users all create formidable barriers to entry for entrepreneurs in EU countries. For such firms to achieve commercial success, the new products they release must be demonstrably better than existing ones—and this is a difficult technical feat to pull off.

### RISK TOLERANT

In matters of defense and national security, Trump's actions and words have forced European governments to consider a sudden withdrawal of U.S. assistance as a real possibility. But Europe's private sector is

still making choices based on expectations of far less extreme future scenarios, which undermines the rationale for companies to pursue non-U.S. suppliers. One potential outcome is a return to the kind of more stable transatlantic relationship that existed before Trump's second term. As long as there is some hope of normalcy returning, European companies may, at a minimum, want to postpone such an expensive decision as rerouting supply. Short of thrusting burdensome new regulations on European businesses, there is little their governments can do to alter this commercial logic in the near term.

This is not to say that there is nothing Europe can do to reduce its economic and technological dependence. A future digital euro-based payment system has the potential to create a credible alternative to U.S. financial infrastructure; European technologies may emerge that can compete with and replace U.S. technology; a broadening network of free trade agreements will help diversify European trade. But if Europe's current priority remains its competitiveness and economic growth, any cost-conscious strategy will require the continent to continue to rely on U.S. innovation and economic inputs at levels near those seen today.

Europe's choice to continue to use American goods, services, and technology is not merely the outcome of one-sided dependence. It also reflects an awareness that access to the European market yields enormous profits for U.S. businesses in key sectors and that these companies have strong stakes in preserving the transatlantic relationship. Ultimately, Europe's economic dependence is not as great a source of fear as its military dependence. And the continent is already addressing its most pressing worry—that Washington could withhold military assistance in a future standoff with Russia—by building up its defense capabilities alongside Ukraine. With Europe's security concerns under control, keeping the economic relationship with the United States largely unchanged is becoming an acceptable risk. 🌐

*Europe Is Stuck With America*