Robert Basedow August 11th, 2025

The political costs of the US-EU trade deal outweigh the economic impact

The US-EU trade deal announced in July has been portrayed as a one-sided agreement that damages European economic interests. Yet as **Robert Basedow** *explains, the real costs for the EU are likely to be political rather than economic.*

How imbalanced is the US-EU trade deal? Since the European Commission and the White House announced their trade agreement in July, media commentary has been abundant, with commentators agreeing that the deal is heavily one-sided and represents a humiliation for the European Union. While this certainly does not look flattering for the EU and Commission President von der Leyen, it may be worthwhile unpacking and contextualising the deal to fully appreciate its implications.

The deal contains seven key elements. First, the United States applies a 15% tariff to EU imports – excluding steel, copper and aluminum, which remain subject to a 50% tariff. The EU, it seems, is not expected to change its tariff schedule except for cars, where it reportedly committed to reducing its tariff from 10% to 0%.

Second, the EU agrees to send $600 billion in outward foreign direct investment (FDI) to the United States by 2028. Third, the EU committed to importing energy worth $750 billion. Fourth, the EU shall buy “vast” yet unspecified amounts of US weaponry and defence technology.

Fifth, the EU and US reiterate their joint objective to strengthen economic security measures and supply chain resilience. While not explicit, this item commits Europeans to working with the USA on containing China. Sixth, the United States remains committed to European security and defence. Finally, the EU gives the Trump administration a widely publicised foreign policy victory.

So how bad is the deal for the EU overall?

In a nutshell, the deal is not as damaging as it may appear in the short run. It does, however, have significant negative political implications in the long term. Let us start with the short-term effects.

Tariff increases from low single-digit levels to 15% for most European imports are surely bad news for European manufacturers and, importantly, US consumers. Moving beyond this headline, however, a more nuanced picture emerges.

The US administration is raising tariffs for all major trading partners – though to different degrees. The United Kingdom was handed a 10% tariff. Most British goods, in other words, now benefit from a 5% cost advantage relative to European goods in the US market. This is good news for the UK – and surely a deliberate move by the pro-Brexit Trump administration – as it may become a more attractive manufacturing location, notably for EU companies seeking to export to the US. However, the notorious volatility of Trump's policies may discourage EU manufacturers from investing in the UK.

Most allied countries – including Japan, South Korea, and indeed the EU – had to accept a 15% tariff in recent weeks. The competitive playing field for European producers in the US market thus remains unchanged relative to goods coming from these countries, which moreover have similar export profiles to the EU. An imported Japanese Lexus, Korean Kia or European Mercedes will all face a 15% import tax in the US.

Other countries – like China, South Africa, Brazil, Vietnam, and possibly India – must contend with much higher tariffs than the EU's 15%. Hence, the competitive playing field for European producers in the US economy is improving relative to exports from these countries. One should thus expect some trade diversion as American consumers switch to relatively cheaper imports from Japan, South Korea or the EU. That said, the EU exports different types of goods than Vietnam or China, which means these diversion effects are likely limited.

What about the competitive playing field for Europeans relative to US domestic producers? It is clear that Europeans – like all other exporters – will lose competitiveness compared to US manufacturers. Yet this effect may be smaller than many observers appreciate, and smaller than the Trump administration hopes.

Complex industrial goods are no longer produced in single jurisdictions but within global value chains. US car manufacturers, for instance, rely heavily on inputs and assembly plants in Mexico and Canada. As the Trump administration has levied tariffs of up to 25% on cars and auto parts coming from its neighbours, US manufacturers may also see significant cost increases.

In sum, Trump's tariff policies hurt everyone – and most importantly, US consumers. While these insights may not console European firms, workers and policymakers, they do put the "humiliating" tariff deal between Brussels and Washington into perspective.

Investment and energy commitments

Moving to the investment commitments, it is worth examining recent EU outward FDI flow statistics. The EU agreed to invest $600 billion in the US economy by 2028. Leaving aside that EU and US policymakers have limited control over where and how firms invest, as well as the difficulties in accurately measuring FDI flows, it is important to note that Eurostat registered EU outward FDI flows to the US of approximately $280 billion in 2022 and $330 billion in 2023.

In other words, the EU committed to maintaining current levels of outward FDI to the US. Regarding the scale of agreed European spending on US weaponry and defence technology, little is known. But one may expect a similar picture, with Europeans committing to levels already agreed at this year's NATO summit.

The situation looks different regarding the EU's energy purchase commitments. To recall, the deal foresees the EU spending $750 billion on US energy by 2028. To appreciate this commitment, it is important to know that in total, the EU imported energy worth approximately $420 billion in 2024. If taken at face value and assuming stable energy prices and consumption, the deal would require the EU to more than triple its annual imports from the United States, from some 20% to almost 75% of total imports.

It seems questionable whether the EU can deliver on this commitment. As in the United States, private companies dominate the single market for energy and largely escape political control. European state-owned companies, in turn, are unlikely to have the operational flexibility to increase their purchases from US suppliers to the extent necessary – not least because gas, oil, coal and nuclear energy are often subject to long-term contracts running for decades.

In all likelihood, the Trump administration wants the EU – and in particular eastern member states like Poland – to buy more US nuclear technology. However that may be, it is clear that US energy companies – rather than manufacturers and workers – are the main beneficiaries of this deal.

A new protectionist benchmark

Turning to security and the long-term effects, the deal mostly reiterates ongoing transatlantic efforts to defend Ukraine and strengthen economic security. If anything, however, the deal is likely to weaken the EU's normative commitment to the transatlantic alliance due to the aggressive and transactional style of the Trump administration.

This leads to the final point. The EU undoubtedly delivered an important foreign policy victory to the Trump administration, which was arguably the main objective for the White House. It enabled Trump to claim victory and legitimise his policies to US voters and, more importantly, financial markets.

It is worth recalling that in April 2025, Trump had to retreat and abandon many of his tariffs due to growing nervousness in bond and stock markets over the risk of a global trade war. It was global financial markets that pulled Trump back. By accepting Trump's approach and allowing him to divide countries and strike bilateral deals step-by-step, the EU – and indeed other governments before it – have enabled Trump to blindside financial markets and incrementally continue his protectionist policies.

These are the real costs of the EU-US deal that will materialise in the long run. Rather than incurring the high short-term costs of retaliation and a trade standoff, the EU may now have to accept the long-term costs of protectionism, coercion and degradation of global economic governance institutions.

Proponents of the deal may argue that the EU's economy is too fragile for such a stand-off, which might have further strengthened the rise of far-right parties in Europe. Yet, it is worthwhile considering that Canada's political centre managed to win the 2025 Canadian federal election exactly by pushing back against Trump's coercive policies and rhetoric. The subdued economic pain of the US-EU trade deal is unlikely to achieve the same.

Looking forward, Trump's policies set a new protectionist benchmark that future US administrations – both Democratic and Republican – are unlikely to lower. After all, the Biden administration largely preserved the trade policy legacy of the first Trump administration. The deal establishes and legitimises a new normal that will haunt Europeans for many years to come. To conclude, the deal is not problematic, first and foremost, because of the tariff increases and effects on European competitiveness; but rather because it sets a new political tone and deprives the EU of agency.

Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: © European Union

---

About the author

Robert Basedow

Dr Robert Basedow is an Associate Professor for International Political Economy in the European Institute of the London School of Economics and Political Science. Prior to joining LSE, he was an official at the Organisation for Economic Co-Operation and Development (OECD) in Paris, worked as consultant for the European Institutions, the German government and was a Max Weber Fellow at the European University Institute (EUI) in Florence.

Posted In: EU Foreign Affairs | LSE Comment | Politics