How Europe Must Respond to Trump's Economic War. For a European economic deterrence strategy

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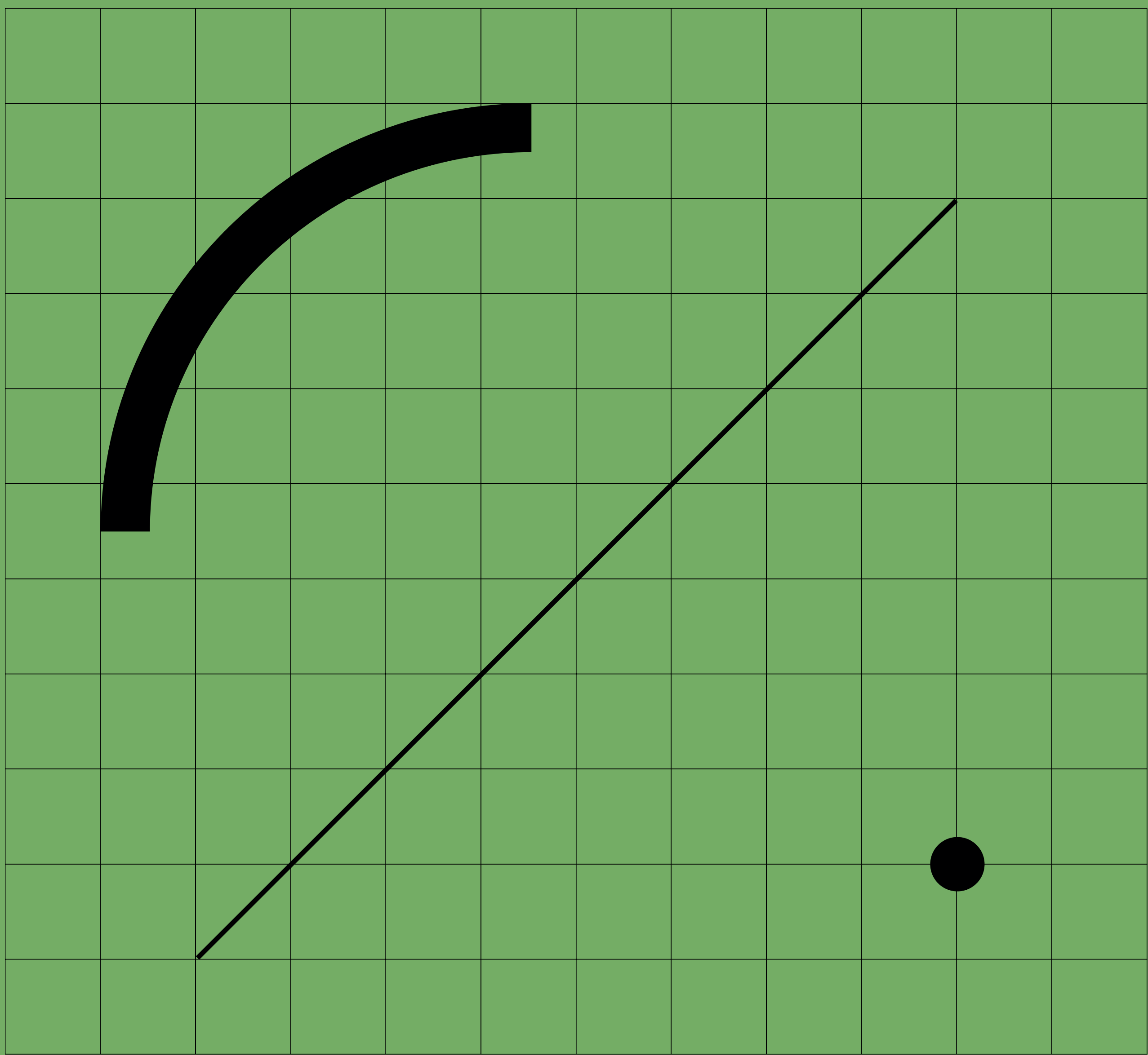

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How Europe Must Respond to Trump's Economic War.

For a European economic deterrence strategy

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Faced with a trade war and imperial temptations, Europe has the means to lead the resistance and deter the Trump administration.

With Donald Trump back in the White House, Europe is facing an existential crisis. The American president's actions and the change of era symbolised by J. D. Vance's speech at the Munich Security Conference call for a collective awakening – for Ukraine, for the European security architecture, but also, and this is the focus of this article –for its economic policy. There is a real risk that the American offensive in this area will lead to an 'economic Munich' in the coming months: a capitulation to the United States that would ensure division, dishonour and defeat for the continent.

Strategically, Europe has long based its security and defence architecture almost entirely on the US. Donald Trump's threats regarding NATO funding, the prospect of a peace agreement with Russia signed on the back of Ukraine, and his interest in Greenlandhave elicited far too few reactions from European and national leaders prior to the emergency meetings organised in Paris, Washington and London by Emmanuel Macron and Keir Starmer. Economically, Europe has a card to play, but it is often afraid of its own strength, remaining the last powerless defender of a liberal international trade order that is in a state of complete disintegration. It must finally agree to pursue a more offensive economic policy if it is not to be crushed by the Sino-American rivalry. Ideologically, the transformation of the dominant paradigm of international relations from neo-liberal free trade to mercantilism, and from an "open multilateral international order based on rules" to a world where might makes right, is plunging Europe into a state of shock.

But there is a chance that Europeans will wake up to the need for a cultural revolution. The prospect of blanket "reciprocal" tariffs to the tune of 25% on all European goods beginning in April makes a European strategy critical and urgent. The theme of European 'sovereignty' is gaining ground, and the language of power is becoming less and less frightening. In addition, the Draghi report has led to the beginnings of a European economic aggiornamento on domestic economic policy. The "Competitiveness Compass" presented in mid-January by the President of the European Commission is intended to put this into practice, but a large number of legislative initiatives will be needed in the coming months if it is to rise to the challenge.

Europeans are gradually becoming aware of the need for a cultural revolution

In addition, and this is the crux of our argument, the Draghi report, which focuses on domestic economic policy must be supplemented by an aggiornamento on external economic policy. The EU can and must build a genuine "economic policy deterrent", i.e. an arsenal of measures capable of providing a credible, lasting and effective response to an American economic offensive that promises to be much broader than the tariff initiatives taken during Donald Trump's first term in office. We will therefore need to be capable of launching long range economic strikes against American economic interests, going beyond "simple" trade tariff responses.

Europe must be able to exert global economic leadership commensurate with the size of its market. This requires profound changes to the continent's trade, industrial and macroeconomic policy. This is the price Europe will have to pay to be able to launch a counter-offensive against the American initiatives –which will also go beyond trade – by immediately boosting domestic investment andforging new alliances with emerging economies. This strategy, which is not afraid of confrontation, should however aim to eventually support international economic policy coordination. In the next few years, Europe could, together with the US, Japan and China, seek to address global imbalances and exchange misalignments by way of a new Plaza agreement. By defending its interests, Europe can also set out a roadmap for the reform of globalization which, without giving in to Trumpism, would recognize the failures of the current model and attempt to move towards a new international order that would give the major emerging economies their rightful place instead of the late "Washington Consensus".

Europe can no longer settle for traditional and targeted tariff responses on the commodities market, however necessary they may be, in order to counter American protectionism.

The approach adopted in 2017-2018 by the Commissioner for External Trade, Cecilia Malmström, and the Juncker Commission,[1] known as the "Juncker Plan", which consisted of applying targeted customs countermeasures (see Table 1) and negotiating a purchasing agreement (for agricultural goods or gas) is no longer an

1 — Milan Schreuer, "E.U. Pledges to Fight Back on Trump Tariffs as Trade War Looms", The New York Times, 7 March 2018.

adequate framework to respond to Trump II.

Trump I's approach was relatively targeted, focusing on steel, aluminum and the automotive sector. Trump II's approach is much more generalized and aggressive. During the campaign, he talked about tariffs of 10% on all goods and, more recently, about raising all US tariffs to the level of reciprocal tariffs. If he treats the VAT as a non-tariff barrier, as he suggests, this could mean massive tariffs against the Union. We must therefore significantly expand our arsenal as any trade response will have to be backed up by others.

Moreover, the US offensives themselves are not limited to tariffs (see Table 1) but are aimed at forcing the European Union and other trading partners to change their economic policies more broadly in a way that favors American interests, particularly in the digital sector.

The threats to the Digital Services Act and the Digital Markets Act are clear and should prompt us to use these instruments more aggressively, even if they were not originally designed as political tools. From the start of Donald Trump's presidency, the America First Trade Policy memorandum announced a comprehensive overhaul of economic protection tools. In particular, it provided for an in-depth examination of the US industrial and manufacturing base, as well as a tightening of export controls aimed at preserving America's technological edge in strategic sectors such as artificial intelligence and semiconductors.[2]

It is also noteworthy that this American offensive even predates the Trump administration's arrival in office. In its last executive orders, notably on 13 January 2025,[3] the Biden administration took strong measures to restrict exports of chips and semi-conductors to certain EU countries, potentially opening up important issues for the integrity of the single market and European trade policy.

Table 1: Donald Trump's trade policy instruments and the EU's responses

Instruments	Description of the Section / Instrument	Timeline (Trump I & Potential Trump II)	Actual or potential consequences for the Union	Instruments making up the Juncker deal
Investigation under Trump I against the Digital Services Tax ST under Section 301 and possible extension under Trump II	Section 301 of the 1974 Trade Act allows the United States to investigate and impose unilateral trade sanctions against practices deemed unfair.	Trump I: Use of Section 301 against the French GAFA tax and opening of a preliminary investigation against the European DST. / Trump II: Likely activation of a 301 investigation into the DSA, accusing the EU of discriminating against US companies (GAFAM).	Risk of retaliatory tariffs on European exports (wine, luxury goods, agricultural products) similar to those applied to China under Trump I.	The EU has put off implementing the European GAFA tax in exchange for negotiations at the OECD.)
Investigations against the steel and aluminum sectors under Section 232	Section 232 of the Trade Expansion Act of 1962 allows trade restrictions to be imposed for reasons of national security.	Trump I: Introduction of tariffs of 25% on steel and 10% on aluminum in 2018. EU-US agreement in 2021 suspending these tariffs subject to quotas. Trump II: reactivation of tariffs on European steel and aluminum, suspended until March 2025.	Increase in the cost of European steel and aluminum exports to the United States, impact on the European steel industry.	The EU retaliated with countermeasures targeted at American products. The list included steel products, textiles, motorbikes, boats, yachts, food products (corn, orange juice, peanut butter) and so-called "vice" products (whiskey, bourbon, cigarettes).
Investigation into the automotive sector under Section 232	Possible use of Section 301 to attack the CBAM (Carbon Border Adjustment Mechanism) or European subsidies to green industry.	Trump I: Little action against European green subsidies. Trump II: Possible investigation and sanctions against European policies to support the energy transition.	Risk of retaliation against Europe's green industries (solar panels, batteries, wind power).	No specific action under Trump I, but the EU creates the CBAM in 2023 with planned implementation in 2026, increasing the risk of sanctions under Trump II.
Green grants and CBAM under Section 301 or 232	Possible use of Section 301 to attack the CBAM (Carbon Border Adjustment Mechanism) or European subsidies to green industry.	Trump I: Little action against European green subsidies. Trump II: Possible investigation and sanctions against European policies to support the energy transition.	Risk of retaliation against Europe's green industries (solar panels, batteries, wind power).	No specific action under Trump I, but the EU creates the CBAM in 2023 with planned implementation in 2026, increasing the risk of sanctions under Trump II.
Activation of the International Emergency Economic Powers Act (IEEPA)	1977 law allowing the President to directly impose economic sanctions in the event of an extraordinary threat to national security.	Trump I: Used to impose sanctions against Huawei and TikTok. Trump II: Activation of tariffs of 25% on Canadian and Mexican exports and a further 10% on China. Threat of further action against the EU?	Severe restrictions on financial and technological transactions involving European companies.	

2 — See Section 4. c) of the America First Trade Policy memorandum.

3 — FACT SHEET: Ensuring U.S. Security and Economic Strength in the Age of Artificial Intelligence, The White House.

Strengthening the Buy American Act (BAA)	The BAA is a law dating back to the 1930s, the conditions of which have been revised several times by executive orders, requiring federal agencies to buy products made in the United States and limiting the access of foreign companies to public contracts.	Trump I: Tightening the rules of the Buy American Act to restrict foreign suppliers. Trump II: Likely extension of restrictions, particularly against European companies, to encourage industrial relocation to the USA.	Exclusion of European companies from American public contracts, losses for the European pharmaceutical, technology and manufacturing industries.	The EU has tried to negotiate exemptions for certain industries, but without much success.

The European Commission therefore urgently needs to identify all exports of American goods and services that could be the subject of a large-scale retaliation. This list should be drawn up in such a way as to maximise the damage inflicted, and should be implemented as much as possible regardless of the European goods targeted by the Americans, while at the same time providing for specific accompanying measures to support the targeted sectors in Europe so as not to allow tensions to arise between Member States and to prevent bilateral negotiations between them and the United States.

Europe also needs to strengthen its own economic defense instruments. As the Union is a leading exporter at a time of weak growth, a symmetrical trade war will inevitably weaken its industries even further, without guaranteeing a favorable balance of power vis-à-vis the United States. As demonstrated by the recent opposition of five countries, including the abstention of Germany, to the introduction of European customs duties on Chinese electric vehicles last October illustrates the tensions between Member States and the difficult balancing act with China between the need to defend European industries and the protection of the short-term economic interests.

Faced with these challenges, the EU must rethink its arsenal of retaliatory measures and adopt a broader strategy, combining trade policy, competition policy, support for innovation and the protection of strategic sectors. The idea is not to give in to blind protectionism, but to establish a "protectionism of deterrence", sending a clear signal to the United States by being able to launch long range economic strikes.

The first lever is financial policy, particularly through regulation and supervision of the sector. The EU could restrict the access of US financial companies to the European financial services market by tightening regulatory requirements, as well as access to the European market for US companies – banking licences – or more subtly through so-called "second pillar" supervisory measures. This could also restrict US asset managers' access to European savings by amending the AIFMD. The EU could also use its foreign investment screening mechanism to limit US access to European companies/assets if necessary. This approach would better protect European interests from dominant US players while ensuring a more level playing field.

Access to the digital market is also a key issue, particularly in a context where the major US technology companies, the GAFAMs, are seeking to evade European obligations in terms of content monitoring and equal political treatment. The EU already has powerful instruments, such as the Digital Markets Act (DMA) and the Digital Services Act (DSA), which impose strict obligations on dominant platforms. Strengthening their application[4] and toughening the penalties for non-compliance would give Europe additional leverage to defend its digital interests and prevent US companies from unilaterally dictating their conditions on the European market, even if the mere implementation of current European law s seemingly being called into question by the new US administration. A confrontation in the digital field seems increasingly inevitable and one for which the EU needs to be prepared.

A third line of response involves competition policy. The EU could step up its monitoring of abuses of dominant positions and merger control to prevent American companies from acquiring undue influence on European markets. The European Commission has already used these instruments in , notably by imposing heavy fines on Google, Apple and Microsoft in the past. It is also possible to envisage measures that could go as far as the forced sale of certain assets. This was the thrust of the first Microsoft case several decades ago and is currently the subject of debate in the cases pending before the US judge concerning Google.[5] In reality, this would be a return to the origins of antitrust law with the Sherman Act. The EU has always been more reluctant to engage head on in this area, but it could be a good idea to change this paradigm and adopt a more geopolitical approach to competition policy, something that has effectively already started in China. Commissioner Vestager indicated before the end of her term that this could be an

4 — In January 2025, for example, the Commission announced that it was stepping up its investigation into platform X as part of the measures provided for in the DSA.

5 — United States of America et al. v. Google LLC, United States District Court for the District Of Columbia, Case No. 1:20-cv-03010-APM.

option.[6] Today, American companies have a strategic hold on artificial intelligence and cloud computing, which may create not only strategic vulnerabilities but also positions of dominance that are dangerous for the European digital economy and which we must be able to protect ourselves against.

Finally, Europe must be able to respond to the powerful tools used by the United States to to extend their export restrictions and sanctions beyond their territory,

such as the mechanisms put in place by the Bureau of Industry and Security (BIS) with the Foreign Direct Product Rule (FDPR). These instruments enable Washington to impose restrictions on foreign companies on the pretext that they are using American technologies or even American workers. This is the case, for example, for the Dutch company ASML, world leader in semiconductor lithography machines, which is regularly threatened by the US if it does not stop supplying equipment to China. These threats were initially limited to a few products used to produce the most advanced semiconductors, but the list is growing as the Sino-American conflict expands, as the "Small yard, high Fence" doctrine evolves into a total Sino-American war for semiconductor dominance.

This point has become central to the response to the extraterritoriality of US export controls. The Commission is finally preparing for it[7] by focusing on the coordination of export controls, even though in principle they are still the sole responsibility of the Member States. It may also have to make use of instruments such as the blocking regulation or the anti-coercion mechanism, which it must ensure can be used to counter restrictions imposed via export controls.

Table 2: The EU's defensive trade policy instruments

Instruments	How it works	Creation	Use
Anti-dumping	Allows additional customs duties to be imposed on products imported at a price lower than their normal value (the price charged on the exporting country's domestic market). The aim is to restore a level playing field for European companies.	Based on the EU anti-dumping regulation (initially introduced in the 1960s and strengthened by successive reforms until 2018).	Regularly used against countries such as China and Russia, particularly in the steel and aluminium sectors.
Implementing Regulation 654/2014	Enables the EU to review its international trade commitments, particularly in the event of a third country violating WTO rules or bilateral trade agreements. Allows retaliatory measures to be applied, such as additional customs duties, quantitative restrictions or limitations on market access, in response to illegal or unjustified trade measures taken by other countries.	Adopted on 15 May 2014 to strengthen the EU's ability to enforce its international trade rights, particularly in the WTO. Revised in 2021 following the blocking of the WTO Appellate Body and now allows the EU to suspend its commitments even if the WTO has not issued a final ruling.	It has never yet been used, but could be in the case of US investigations under Section 232 or in the case of reciprocal customs duties.
Anti-subsidy (or compensatory measures)	Enables the control and, if necessary, blocking of acquisitions and bids for European public contracts by companies benefiting from undeclared foreign subsidies. The aim is to prevent distortions of the EU's internal market.	Adopted in 2022 and fully implemented in 2023.	A very recent initiative, it is currently being implemented, with the first investigations launched, notably against Chinese companies.
Anti-coercion instrument (ACI)	Designed to respond to coercive measures by a third country, i.e. a situation in which the third country seeks to put pressure on the EU or a Member State to make a particular choice by applying - or threatening to apply - measures affecting trade or investment. The presence of coercion will be determined by a Council decision on a proposal from the Commission. It allows the EU to retaliate with proportionate countermeasures according to a series of criteria and by Commission implementing regulation. These include trade restrictions, additional customs duties, restrictions on access to European public contracts, and controls on exports, imports and investments.	Created in 2023, notably after pressure on Lithuania from China.	Not yet officially used, but identified as a potential lever.
Blocking regulation 2271/96	Protects European companies from extraterritorial sanctions imposed by third countries (until now by the United States) by prohibiting their application in the EU. It also allows companies to seek redress and compensation for damages from the intermediaries responsible for implementing the sanctions (in practice, companies providing services to the US government). However, the European Commission may grant an exemption from the regulation for European companies with a high exposure to the US market.	Created in 1996 to counter US sanctions against Cuba, reinforced in 2018 in the face of secondary sanctions against Iran. Could now be used to counter US sanctions against third countries, EU trading partners such as China.	Limited application, with mixed results in the face of US sanctions on Iran. Little use is being made of it for the time being, because of the risk of retaliation by the US government and the priority given to the US market by European companies .
Strengthening the Buy American Act (BAA)	The BAA is a law dating back to the 1930s, the conditions of which have been revised several times by executive orders, requiring federal agencies to buy products made in the United States and limiting the access of foreign companies to public contracts.	Trump I: Tightening the rules of the Buy American Act to restrict foreign suppliers. Trump II: Likely extension of restrictions, particularly against European companies, to encourage industrial relocation to the USA.	Exclusion of European companies from American public contracts, losses for the European pharmaceutical, technology and manufacturing industries.

6 — Foo Yun Chee, "Google faces EU break-up order over anti-competitive adtech practices", Reuters, 14 June 2023.

7 — Luca Bertuzzi and Oscar Pandiello, "EU prepares comments on US export control rules for AI chips", MLex, 11 February 2024.

Taking back control: the art of the European deal

Protectionism as a deterrent, however tough it may be, it will not be enough to settle this economic war.

Europe must also regain control of the global debate. Its response could be built in three stages: firstly, a new European macroeconomic framework to make it possible to implement its competitiveness programme; secondly, a new pact with emerging countries to take advantage of Trump's unilateralism and the American withdrawal; thirdly, work on a new Plaza Accord with China and the United States to address global imbalances and exchange rate misalignment to limit and settle the ongoing trade conflict.

Overhauling Europe's macroeconomic framework

The simultaneous implementation of necessary investments for military spending, innovation, and the energy transition–which we never tire of pointing out also serves our strategic autonomy by reducing our dependence on fossil fuel imports – cannot be achieved within the current static macroeconomic framework. Alongside measures to stimulate productivity by deepening the internal market, a genuine reform of budgetary rules – more ambitious than the reform of the Stability and Growth Pact in April 2024 – is essential. It should be noted that the German parliamentary elections and the passing of an historical constitutional amendment reforming the debt brake represent a decisive turning point. This could encourage a more expansionary fiscal policy at the national level and thus influence the balance of power between the "frugal" Member States and the others in the Council regarding the relaxation of budgetary rules at the European level. In addition, financing European defence will inevitably require the introduction of a new common borrowing capacity and a centralised procurement policy, with a clear preference for European industries. In this context, it is imperative that the Union does not reduce its public investment and that it also extends NextGenerationEU, when it negotiates its new budget for the 2028-2035 period.

This new borrowing capacity will have to be matched by the creation of new own resources to back the EU budget. As far as taxation is concerned, Europe can no longer wait for a global consensus that will not come with the about face in US policy. Not only will it have to maintain and deepen the measures aimed at combating tax optimisation by multinationals–despite the fact that the prospects of ratification by the US Congress of the agreement reached at the OECD level are receding – but it will also have to make a greater commitment to combating tax evasion by individuals. A European tax on the wealthiest individuals would be a useful first step, accompanied by the introduction of an exit tax, coordinated at the European level to avoid the shortcomings of national initiatives, in order to prevent wealthy individuals from moving their assets to more lenient jurisdictions when leaving a country.

The dam the EU intended to establish by way of a carbon border adjustment mechanism (CBAM) has been weakened by the United States (even under Biden) and urgently needs to be consolidated and strengthened or else it will unravel entirely with major consequences for European industry. Through mechanisms such as the IRA and the European CBAM, one idea has emerged: the need to bring together economic, energy, strategic and environmental imperatives.If the United States reneges on its climate commitments and abandons any ambition for energy transition, it will not only weaken its own environmental policy but also actively damage European efforts. The pressure exerted by Washington against the European CBAM constitutes a significant threat to the Union's entire industrial and climate policy, since in the absence of such a carbon adjustment mechanism at the borders, the European market in pollution rights (ETS) would become unsustainable. For a Europe that has made the price of carbon the central pivot of its transition strategy, such a challenge would represent a considerable strategic setback. There is an urgent need to strengthen the CBAM (Carbon Border Adjustment Mechanism) by extending the scope of the goods concerned, in particular to finished products, simplifying its methodology and implementation, and establishing a subsidy mechanism for "decarbonized" exports. This is because the CBAM increases the price of imported "carbon" goods, ensuring equal treatment with European production, but does not lower the cost of exported "decarbonized" goods. This vulnerability may become even more acute in the world that is emerging where the United States withdraws from the Paris Agreement and any prospect of the widespread adoption of this type of mechanism recedes. Strengthening the carbon border adjustment mechanism will also help to free up resources for joint investments.

For a new alliance between Europe and the emerging countries

Donald Trump's unilateralism, symbolised by the mothballing of US aid (USAID), offers an opportunity that Europeans can quickly seize to forge new alliances with developing countries. It was in the common interest of the planet for advanced industrialized economies to give developing countries the means to invest, particularly in their energy and climate transition, and this was one of the key issues at the Paris Summit in 2023. It is now in the vital interest of Europeans to use the American withdrawal to defend their strategic interests in securing supplies of critical materials, safeguarding the Paris agreements, and cooperating on security and migration with the global south. For $50 billion a year, the budget of USAID, the European Union would have the opportunity to take a decisive position in the developing world and play a major new strategic role alongside the largest emerging economies.

In the short term, the Europeans could respond to the measures taken by Donald Trump to strengthen their own mechanisms, by relaunching the idea of European "Silk Roads". On an institutional level, it is becoming necessary for Europe to engage in a reform of the governance of international financial institutions, giving a greater place to the major emerging economies and assuming all the risks of strong tensions with Washington that this would provoke. Finally, a restructuring of the debt of developing countries seems inevitable; a new 'Baker plan', but this time it should include China, whose role has become absolutely central in many cases.

The weaknesses of the Trump administration must therefore be systematically exploited. In a completely different area, Europe could help to organise a "reverse brain drain" from the United States, targeting researchers and innovators, whether they are of American or European nationality, by offering them material and professional advantages and a fast-track procedure for coming to the continent.

Towards a new "Plaza Accord"

At the heart of Trump's obsession are the United States' chronic trade deficits.

It is true that the massive surpluses accumulated in Asia and in certain European countries, particularly Germany, have destabilized the global economy in recent decades, by depressing demand during economic slowdowns and undermining key industrial sectors throughout the cycle, including in the 'high' phase with the piling up of 'overcapacity', as we are currently seeing in China. It is notable that since the global financial crisis, which made this issue a key element of the G20 discussions, there has been no significant progress.

At present, each major economic bloc is adopting precisely the opposite strategy to that required for a global rebalancing: Europe is not investing enough, the United States is not consolidating enough, and China is not consuming enough.

But it is wrong to believe that the response would be a generalized increase in trade tariffs. The most likely effects of an increase in duties would be higher inflation in the United States, an appreciation of the dollar, and a global slowdown that would rapidly neutralize the expected benefits of these protectionist measures on demand, while having a detrimental effect on supply by profoundly destabilizing value chains. Added to this, of course, is the fact that the effect of uncertainty linked to erratic decisions on trade matters is likely to cripple many investments.[8]

These analyses seem to be percolating even among those close to Donald Trump. The duo of Peter Navarro and Robert Lighthizer, Adviser to the President and United States Trade Representative under Trump I respectively, were very keen to use tariffs to rebalance the current US deficit. On the other hand, a new duo, consisting of Stephen Miran, Chairman of the Council of Economic Advisors[9] and Scott Bessent, Secretary of the Treasury,[10] have produced analyses converging around the structural overvaluation of the dollar as the central cause of the current US current deficit. The two positions are not without tension, since they defend both the dollar's role as a reserve currency (which has an appreciation effect on the exchange rate) and the imperative need to reduce current account deficits (which would argue for a depreciation). In addition to this economic tension, there is also political tension between the increasing number of announcements of customs duties (which will have an appreciating effect on the dollar) and the pressure on the Federal Reserve to keep interest rates low, which will benefit US treasuries (and will tend to weaken the dollar).

In a global rebalancing agreement, there would need to be both exchange rate realignments and profound macroeconomic policy changes. Indeed, Europe needs to do much more to support domestic demand via investment. China needs to rebalance its economy by encouraging consumption. A significant appreciation of the renminbi (RMB) would help to rebalance the

8 — WSJ Editorial Board, 'Trump's Tariffs and the Dollar', The Wall Street Journal, 3 February 2025.

9 — Stephen Miran, 'A User's Guide to Restructuring the Global Trading System', Hudson Bay Capital, November 2024.

10 — Shahin Vallée, 'Why Scott Bessent could be Trump's James Baker', The Financial Times, 25 November 2024.

Chinese economy, but would run the risk of having a deflationary impact on China and slowing global growth if it were not accompanied by sufficient domestic support measures. Finally, the United States cannot simply denounce external imbalances without admitting its share of responsibility for the situation. Its excessive domestic consumption and expansionary fiscal policy are major factors behind the persistence and depth of global imbalances. To remedy this, Washington must commit itself to strong and credible fiscal consolidation. However, such a reduction in the deficit cannot be implemented without recessionary risk for the global economy, unless Europe and China take up the slack by stimulating their own demand. At present, each of the major economic blocs is adopting precisely the opposite strategy to that required for a global rebalancing: Europe is not investing enough, the United States is not consolidating at all and China is not consuming enough.

A lasting rebalancing implies, in particular, an agreement comparable to the Plaza Accord (1985). It would lead to an appreciation of the yuan, a depreciation of the dollar, and a revival of European domestic demand – through an increase in public investment backed by common borrowing and new own resources – in return for a truce in the trade war. If Europe manages to regain its position of strength, it should take the initiative at this multilateral summit on the coordination of exchange rates and macroeconomic policies.[11] This approach would require a real revolution on the part of Europeans, since exchange rate policy remains a taboo subject and the Union has historically been reluctant to make multilateral commitments on budgetary matters, including during the 2008 financial crisis, despite considerable pressure from the United States.

Conclusion: A European alternative to the trade war

Europe's paralysis in the face of the Trump offensive reflects a deeper ideological disarray: one shared by large part of the Western elite in the face of the disintegration of the illusions of Pax Americana, trade liberalism, and the neo-liberal order. The Covid-19 crisis and the rise in geopolitical tensions have revealed the vulnerabilities generated by the integration of global value chains and brought the issues of sovereignty back into the spotlight. The rise of populist parties has reminded those who were tempted to ignore it of the domestic social and territorial fault lines created by the globalised economy. The persistent and massive current account imbalances are gradually proving to be unsustainable. The seductive power of Donald Trump's economic nationalism comes from his ability to give the false sense that he is addressing these very fault lines.

In this respect, it is revealing that Joe Biden did not choose to return to Barack Obama's economic approach. His industrial policy resulted in the massive use of direct subsidies and tax credits, enacted through the Inflation Reduction Act (IRA), the CHIPS Act, and the Research and Development, Competition, and Innovation Act – all focused on industries deemed particularly critical or strategic, mainly semiconductors and green technologies. Its trade policy was reflected in particular in the so-called "small yard, high fences" doctrine, which was a form of targeted protectionism serving the energy transition.

Europeans cannot possibly preach a return to the status quo ante. They must stand firm in defending their interests, speeding up their innovation and derisking their economy both from the US as well as from China. They need to formulate an alternative vision to that of Donald Trump by tackling tax competition, macroeconomic imbalances, and the financing of the energy transition through a new impetus for international cooperation with emerging countries. Regaining control of global capital flows is, in the long term, the only way to respond to the American/imperialist/nationalist wave that is emerging and the best possible path to avoid a destructive and futile trade war.

If this long-term perspective is not enough to convince many Europeans to undertake a cultural revolution, they could simply consider their short-term interests. It would be an illusion to believe that we can separate the strategic issues, linked to the security architecture of Europe, from the economic issues, just as we will not be able to deal with the latter by negotiating the fiscal, commercial, macroeconomic, regulatory and other aspects separately. While the political organisation of the continent, as well as its ideological tendencies, have led it to a siloed approach s, it would be fatal to reason in this way in the face of a Trump administration that is constantly mixing issues. It is by defining a comprehensive approach as quickly as possible that Europeans will be able to establish a more favourable balance of power, and avoid complete economic, political and strategic capitulation

11 — Buti, M. (2018). The New Global Economic Governance: Can the EU help win the peace? Luiss Working Paper.