



U.S.-EU Trade and Investment Ties: Magnitude and Scope

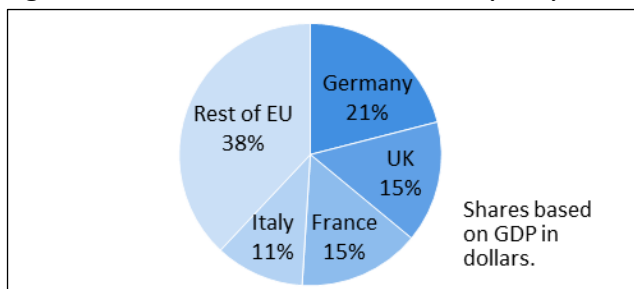
Introduction

The United States and European Union (EU) have extensive and globally significant trade and investment ties that have evolved since World War II. These ties have deepened with the growth of global supply chains, trade in services, and cross-border investment. The transatlantic economy is a dominant force; in 2018, the United States and the EU28 accounted for nearly half of world gross domestic product (GDP) (current U.S. dollars), 11% of world population, one-fifth of world goods exports (excluding intra-EU), and more than half of global foreign direct investment (FDI). The withdrawal of the United Kingdom (UK) from the EU on January 31, 2020 (“Brexit”) brings changes to U.S.-EU trade and investment ties, but the United States and EU will remain each other’s largest trade and investment partners.

EU Economy

In 2018, the EU28 comprised 21.8% (or \$18.8 trillion) of the global economy. Germany was the EU’s largest economy (see **Figure 1**). Excluding the UK, the EU27 comprised 18.5% (or \$15.9 trillion) of the global economy.

Figure 1. EU28 Gross Domestic Product (GDP), 2018



Source: CRS, based on data from the World Bank.

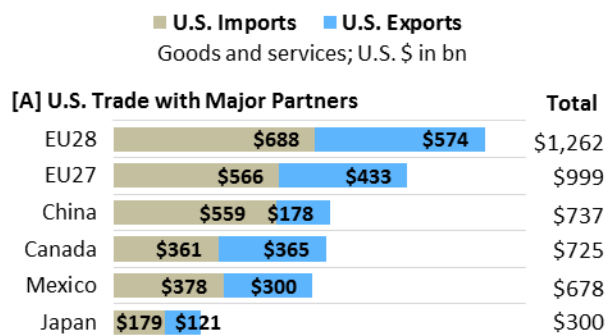
Post-Brexit, the EU consists of 27 member states (EU27) that are integrated economically. Members share a customs union, a single market in which goods, services, people, and capital move freely, and a common external trade policy (negotiated by the EU) with a common external tariff. The EU has a common currency used by 19 “Eurozone” member states. It is pursuing further integration in financial and other areas, but faces challenges.

The 2008-2009 global recession and subsequent Eurozone debt crisis depressed European economies, led to a rise in unemployment in many member states, and elicited concerns about the vitality of the European banking system. While the EU overall has mostly recovered from this crisis, Greece, Italy, and other member states continue to face economic difficulties. The EU economy grew 1.5% in 2019, and is expected to grow a modest 1.6% in 2020 as weakness continues in trade and manufacturing (International Monetary Fund, November 2019).

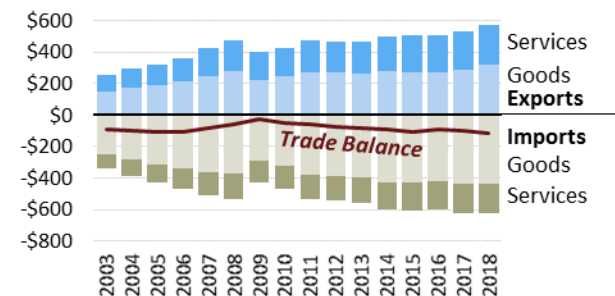
U.S.-EU Trade

Despite the rise of China and other emerging economies, ongoing U.S.-EU trade frictions, and Brexit, the United States and EU will remain each other’s largest trading partners (see **Figure 2A**). In 2018, the EU28 accounted for 22.4% (or \$1.3 trillion) of U.S. total trade—double the 2003 value of U.S.-EU trade (see **Figure 2B**). Given U.S.-UK bilateral trade ties, U.S.-EU trade levels will change with the removal of the UK (see **Figure 2C**).

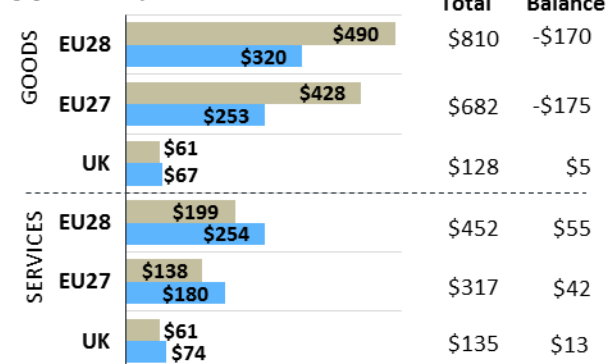
Figure 2. U.S. Trade with Select Partners



[B] U.S. Trade with EU28



[C] U.S.-European Trade



Source: CRS, data from U.S. Bureau of Economic Analysis (BEA).

Goods. In 2018, for goods, the EU28 was the United States’ largest export market (\$320.2 billion), and its second largest source of imports (\$489.8 billion) after

China (\$540.4 billion) (BEA data). Excluding the UK, the EU drops in position to be the United States’ third-largest goods export market (\$253 billion) after Canada (\$300.5 billion) and Mexico (\$266.0 billion), but it remains the second largest source of U.S. imports (\$428.4 billion) after China. In addition, the composition and rank of goods traded between the United States and EU changes to some degree with the exclusion of the UK (see **Table 1**).

Table 1. U.S. Trade in Goods with Europe, 2018 (\$bn)

	Product (NAICS 4-digit)	EU28	EU27
Top U.S. exports	Aerospace products & parts	47.0	35.0
	Pharmaceuticals & medicines	32.9	28.8
	Oil & gas	14.5	10.3
	Navigational/measuring/medical control instruments	13.4	11.7
	Basic chemicals	13.4	12.1
	Medical equipment & supplies	13.2	12.2
Top U.S. imports	Pharmaceuticals & medicines	86.5	79.5
	Motor vehicles	43.6	34.1
	Aerospace products & parts	27.7	23.4
	Other general purpose machinery	19.9	17.8
	Navigational/measuring/medical control instruments	18.4	16.2

Source: CRS, data from U.S. International Trade Commission.
Notes: NAICS: North American Industry Classification System (NAICS). Special categories (9300, 9800, 9900) excluded.

As highly advanced economies, the United States and EU trade in similar goods within the same industry (known as intra-industry trade). This often consists of trade in components or intermediate goods used to produce complex products such as cars and machinery, allowing firms to specialize and benefit from economies of scale by focusing on different parts of the supply chains. In many cases, intermediate goods are traded across the Atlantic between multinational enterprises (MNEs) and their affiliates (e.g., BMW in Germany trading with BMW in South Carolina).

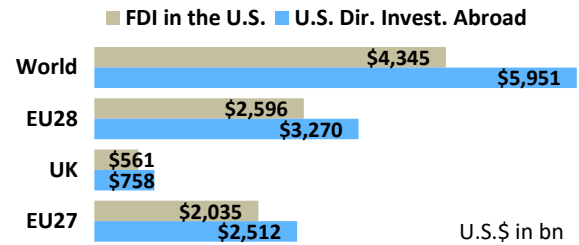
Services. The United States and EU have the world’s two largest and highly integrated services economies. In 2018, U.S. services exports to the EU28 totaled \$253.6 billion and U.S. services imports from the EU28 totaled \$198.6 billion (BEA data). Business services, travel (business and personal), charges for use of intellectual property, transport services, and financial services were the top traded services. The UK accounted for the largest share of U.S.-EU services trade: 29.2% (or \$74.1 billion) of U.S. services exports, and 30.6% (or \$60.7 billion) of U.S. services imports in 2018. Ireland and Germany were also top services trade partners.

U.S.-EU Foreign Direct Investment (FDI)

Transatlantic FDI ties are significant in light of their size and interdependent nature. While the UK held a significant share of these FDI ties, the United States and EU27 will remain each other’s largest FDI sources and destinations (see **Figure 5**). The magnitude of FDI reflects their overall investment-friendly business climates and firms’ preference

to reach customers through local presence. FDI occurs in manufacturing, banking, financial, and other sectors.

Figure 3. U.S. Foreign Direct Investment (FDI), 2018



Source: CRS, data from U.S. Bureau of Economic Analysis (BEA).
Notes: Historical-cost basis.

In 2018, the largest destinations in the EU28 for U.S. direct investment were: the Netherlands (\$883.2 billion), the UK (\$757.8 billion), Luxembourg (\$713.8 billion), and Ireland (\$442.2 billion). The largest sources of FDI to the United States from the EU28 were: the UK (\$560.9 billion), the Netherlands (\$479.0 billion), Luxembourg (\$356.0 billion), and Germany (\$324.2 billion).

In 2017, affiliates of U.S. majority-owned MNEs in the EU28 had sales of \$2.4 trillion and employed 4.4 million workers in the EU; and affiliates of EU28 majority-owned MNEs in the United States had sales of \$2.1 trillion and employed 4.1 million workers in the United States. U.S.-UK affiliate activity accounted for one-third of U.S.-EU total affiliate sales and jobs.

FDI is a driver of goods and services trade. In 2018, related-party trade accounted for 37% of U.S. goods exports to the EU28 and 63% of U.S. goods imports from the EU28 (Census Bureau data). In addition, about half of services supplied by U.S. MNEs were to foreign persons in the EU28, and about half of sales of services to U.S. persons by U.S. affiliates of foreign-owned MNEs were by EU-based MNEs in 2017 (BEA data).

Issues for Congress

U.S.-EU trade and investment ties present a number of issues for Congress, including:

- the role of these ties in bolstering or adversely affecting the U.S. economy and U.S. prosperity overall, and for constituent interests specifically;
- the evolution of these ties post-Brexit; and
- the implications of potential U.S.-EU or U.S.-UK trade liberalization agreements, or further escalation of tariff frictions, for transatlantic trade and investment ties, and in turn, U.S. commercial and economic interests.

For more information, see CRS In Focus IF10931, *U.S.-EU Trade and Economic Issues*, by Shayerah Ilias Akhtar; and CRS Report R45745, *Transatlantic Relations: U.S. Interests and Key Issues*, coordinated by Kristin Archick.

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