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

## Introduction

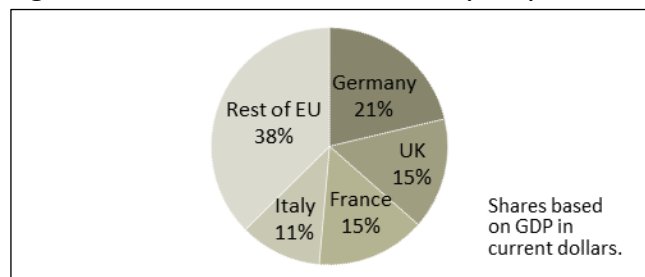
The United States and European Union (EU) (and its predecessors) have deep and extensive trade and investment ties that have evolved since World War II. Their ties have broadened as the EU's membership has grown, and have deepened with the growth of global supply chains, trade in services, and cross-border investment. The transatlantic economy is a dominant force globally, accounting for 46% of global GDP (current U.S. dollars), 11% of world population, one-third of goods trade, over half of global foreign direct investment (FDI), and the highest level of cross-border data flows.

## EU Economy

The EU consists of 28 member states that are integrated economically in many respects. 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 on their behalf) 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.

At \$15 trillion, the EU is about 20% of the global economy. Its largest economies currently are Germany, the United Kingdom (UK), France, and Italy (**Figure 1**). The 2008-2009 global recession and subsequent Eurozone debt crisis depressed European economies, led to unemployment increases in many member states, and raised concerns about the vitality of the European banking system. While the EU overall seems to be recovering, Greece and some member states continue to face economic difficulties. The rise of emerging markets as major global economic players confronts the EU with other challenges.

**Figure 1. EU Gross Domestic Product (GDP), 2017**



**Source:** CRS, based on data from Eurostat.

In 2017, the United States and EU both saw positive rates of economic growth, 2.3% and 2.7%, respectively. Continued economic growth is projected, but downside risks include potential economic impacts from U.S. import-constraining tariff measures and potential continued tit-for-tat escalation of tariffs among trading partners, including the United States and EU.

## U.S.-EU Trade

Despite the rise of China and other emerging economies, as well as current transatlantic trade frictions, the United States and EU remain each other's largest trading partners (see **Table 1**). The EU, as a bloc, accounts for about one-fifth of U.S. total trade in goods and services.

**Table 1. U.S. Goods and Services Trade, 2017 (\$ bns)**

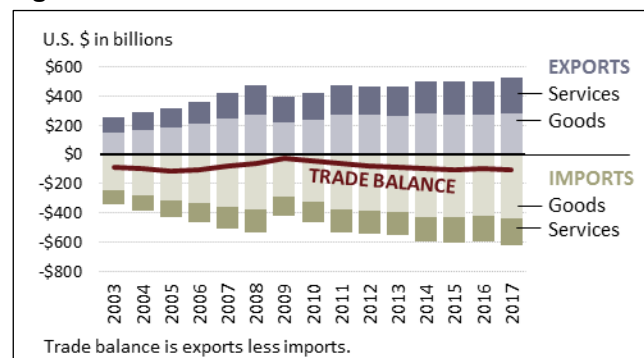
Selected Partners	U.S. Exports	U.S. Imports	Total Trade <sup>a</sup>	Trade Balance <sup>b</sup>
EU-28	\$528	\$629	\$1,158	-\$101
China	\$188	\$524	\$712	-\$336
Canada	\$341	\$339	\$680	\$3
Mexico	\$277	\$346	\$622	-\$69
Japan	\$115	\$171	\$286	-\$57

**Source:** Data from U.S. Bureau of Economic Analysis (BEA).

**Notes:** (a) Exports plus imports. (b) Exports minus imports.

Between 2003 and 2017, total U.S.-EU trade in goods and services (exports plus imports) nearly doubled from \$594 billion to \$1.2 trillion. The United States had an overall trade deficit of \$101 billion with the EU in 2017, as the goods deficit (\$153 billion) outweighed the services surplus (\$51 billion) (**Figure 2**).

**Figure 2. U.S. Trade with the EU**



**Source:** CRS, based on data from BEA.

## Goods

In 2017, for goods, the EU was the United States' largest export market (\$285 billion), and second largest source of imports (\$437 billion) after China (\$506 billion). The EU represented about one-fifth of both U.S. goods exports and imports in 2017. For EU goods trade, the United States accounted for the largest share of EU exports (20%) and second largest share of EU imports (14%) after China.

As highly advanced economies, the United States and EU trade in similar goods with two related features prominent

in their bilateral trade (**Figure 3**). One feature is intra-industry trade (trade of goods within the same industry), often consisting 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 between a parent company in one country and its affiliate in another, known as related-party or intra-firm trade (e.g., BMW in Germany trading with BMW in South Carolina).

**Figure 3. U.S.-EU Trade: Top Traded Goods in 2017**

U.S. \$ in billions

	EXPORT	IMPORT	TOTAL
Pharmaceuticals & medicines	\$28.6	\$72.8	\$101.4
Aerospace products & parts	\$33.7	\$24.6	\$58.3
Motor vehicles	\$8.1	\$46.7	\$54.8
Basic chemicals	\$12.3	\$14.1	\$26.4
Navigational/measuring/medical/control instr.	\$9.8	\$16.5	\$26.3
Other general purpose machinery	\$5.9	\$17.8	\$23.7
Medical equipment & supplies	\$10.3	\$12.6	\$22.9
Petroleum & coal products	\$8.1	\$10.8	\$18.9
Beverages	*\$1.6	\$13.0	\$14.6
Motor vehicle parts	*\$3.9	\$10.0	\$13.9
Nonferrous (excl. alum.) & processing	*\$8.0	*\$3.8	\$11.8
Oil & gas	\$7.1	*\$0.1	\$7.1

\*Not top for that trade direction.

**Source:** CRS, based on U.S. International Trade Commission data.

### Services

The United States and EU are the world's two largest services economies. The services sector is highly integrated across the Atlantic. In 2016, U.S. services exports to the EU totaled \$231 billion and U.S. services imports from the EU totaled \$176 billion. Business services, financial services, charges for use of intellectual property, travel (both business and personal), and transport services were the primary services traded across the Atlantic. Services trade also helps to facilitate U.S.-EU trade in goods.

The UK is the United States' largest services trading partner, both in the EU and globally. U.S. services exports to the UK totaled \$66 billion and U.S. services imports from the UK totaled \$52 billion, with trade in financial services prominent. Within the EU, Ireland and Germany were also leading U.S. services trading partners. Business services and charges for intellectual property use were notable in U.S. services trade with these other countries.

### U.S.-EU Investment

While trade is an important part of the U.S.-EU economic relationship, FDI ties are even more significant, given their size and interdependent nature. The United States and EU are each other's largest source and destination for FDI. In 2017, transatlantic FDI flows totaled over \$5 trillion—\$3.2 trillion of U.S. investment in the EU and \$2.3 trillion of EU

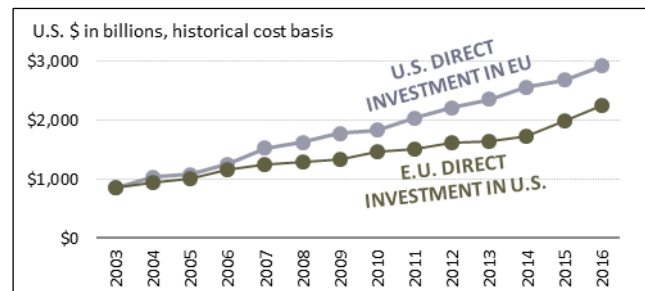
investment in the United States (**Figure 4**). The magnitude reflects U.S. and EU overall investment-friendly business climates, as well as the preference of firms for reaching markets by establishing local presence.

U.S. and European majority-owned multinational enterprises (MNEs) directly employed about nine million employees combined at their subsidiaries in each other's markets in 2015—4.7 million jobs by U.S. MNEs in Europe and 4.3 million jobs by European MNEs in the United States (BEA data). Transatlantic FDI occur in manufacturing, banking, financial, and other sectors.

FDI is a driver of U.S.-EU trade in goods. Related-party trade accounted for about one-third of U.S. goods exports to the EU and 60% of U.S. goods imports from the EU in 2016. On the services side, U.S. and EU services providers increasingly deliver services through their foreign affiliates. In 2015, 44% of services supplied by U.S. MNEs were to foreign persons located in the EU, and 56% of sales of services to U.S. persons by U.S. affiliates of foreign-owned MNEs were by Europe-based MNEs.

Within the EU, the largest destinations for U.S. outbound investment (historical-cost basis) in 2017 were: the Netherlands (\$937 billion), the UK (\$748 billion), Luxembourg (\$677 billion), and Ireland (\$446 billion). The largest sources of inbound FDI to the United States from the EU were: the UK (\$541 billion), Luxembourg (\$411 billion), Germany (\$310 billion), and France (\$276 billion).

**Figure 4. U.S.-EU Foreign Direct Investment (FDI)**



**Source:** CRS, based on data from U.S. Bureau of Economic Analysis.

### Issues for Congress

Given the transatlantic economy's extensive and highly integrated nature, Congress has an interest in examining the trade and investment framework underpinning U.S.-EU economic ties. U.S.-EU trade and economic relations are facing increased frictions in light of U.S. trade policy under the Trump Administration, especially its focus on unilateral tariff measures. Congress may wish to consider the possible implications of changes in U.S. trade policy, such as on tariffs, for U.S. business and economic interests with the EU. For more information, see CRS In Focus IF10931, *U.S.-EU Trade and Economic Issues*, by Shayerah Ilias Akhtar.

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