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

Introduction

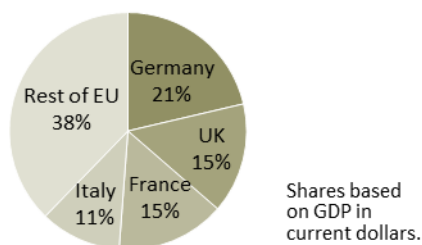
The United States and European Union (EU) (and its predecessors) have extensive and globally significant trade and investment ties that have evolved since World War II. These ties have broadened as the EU's membership has grown, and have deepened with the growth of global supply chains, trade in services, and cross-border investment. The transatlantic economy is a dominant force globally, accounting for nearly half of world gross domestic product (GDP) (current U.S. dollars), 11% of world population, one-third of goods trade, and over half of global foreign direct investment (FDI). Given the extensive and interconnected nature of the transatlantic economy, Congress has an interest in examining the trade and investment ties underpinning it.

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 \$18.7 trillion, the EU is about one-fifth of the global economy. Its largest economies currently are Germany, the United Kingdom (UK), France, and Italy (see **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), 2018



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

In 2018, the United States and EU both saw positive rates of economic growth, of 2.9% and 2.1%, respectively (International Monetary Fund data). Downside risks to economic growth include potential economic impacts from U.S. import-constraining tariff measures and potential

continued tit-for-tat escalation of tariffs among trading partners.

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, 2018 (\$ bns)

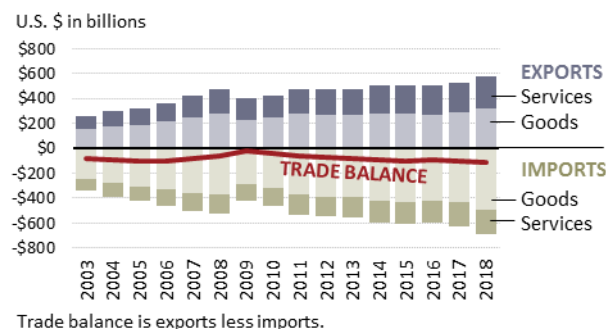
| Selected Partners | U.S. Exports | U.S. Imports | Total Trade ^a | Trade Balance ^b |
|-------------------|--------------|--------------|--------------------------|----------------------------|
| EU-28 | \$574 | \$688 | \$1,262 | -\$115 |
| China | \$178 | \$559 | \$737 | -\$381 |
| Canada | \$365 | \$361 | \$725 | \$4 |
| Mexico | \$300 | \$378 | \$678 | -\$79 |
| Japan | \$121 | \$179 | \$300 | -\$58 |

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

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

Between 2003 and 2018, total U.S.-EU trade in goods and services (exports plus imports) doubled from \$595 billion to \$1.3 trillion (see **Figure 2**). The United States had an overall trade deficit of \$115 billion with the EU in 2018, as the goods deficit (\$170 billion) outweighed the services surplus (\$55 billion).

Figure 2. U.S. Trade with the EU



Source: CRS, based on data from BEA.

Merchandise. In 2018, for goods, the EU was the United States' largest export market (\$320 billion), and second largest source of imports (\$490 billion) after China (\$540 billion) (BEA data). The EU represented about one-fifth of both U.S. goods exports and imports in 2018. For EU goods trade, the United States accounted for the largest share of EU exports (19%) and second largest share of EU imports

(14%) after China (20%) (2017 trade data, World Trade Organization).

As highly advanced economies, the United States and EU trade in similar goods with two related features prominent in their bilateral trade (see **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 2018

| U.S. \$ in billions | EXPORT | IMPORT | TOTAL |
|---|--------|--------|---------|
| Pharmaceuticals & medicines | \$30.5 | \$86.5 | \$117.0 |
| Aerospace products & parts | \$40.9 | \$28.4 | \$69.3 |
| Motor vehicles | \$8.1 | \$46.7 | \$54.8 |
| Basic chemicals | \$12.9 | \$16.5 | \$29.4 |
| Navigational/measuring/medical/control instr. | \$10.5 | \$18.3 | \$28.8 |
| Other general purpose machinery | \$5.8 | \$20.1 | \$25.9 |
| Medical equipment & supplies | \$10.6 | \$14.3 | \$24.9 |
| Petroleum & coal products | \$9.8 | \$14.6 | \$24.4 |
| Oil & gas | \$14.4 | *\$1.5 | \$15.9 |
| Motor vehicle parts | *\$4.4 | \$11.3 | \$15.7 |
| Beverages | *\$1.6 | \$13.8 | \$15.4 |
| Nonferrous (excl. alum.) & processing | \$10.1 | *\$4.9 | \$15.0 |

*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 2017, U.S. services exports to the EU totaled \$254 billion and U.S. services imports from the EU totaled \$199 billion (BEA data). Business services, travel (both business and personal), charges for use of intellectual property, transport services, and financial services were the leading 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 \$70 billion and U.S. services imports from the UK totaled \$57 billion, with trade in financial services prominent. Within the EU, Ireland and Germany were also leading U.S. services trading partners.

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

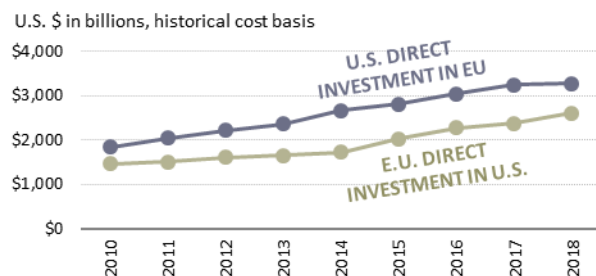
2018, transatlantic FDI flows totaled nearly \$6 trillion—\$3.3 trillion of U.S. investment in the EU and \$2.6 trillion of EU investment in the United States (BEA data, see **Figure 4**). The magnitude reflects U.S. and EU overall investment-friendly business climates, as well as the preference of firms for reaching markets by establishing local presence.

U.S. and European majority-owned multinational enterprises (MNEs) directly employed over nine million employees combined at their subsidiaries in each other's markets in 2016—4.7 million jobs by U.S. MNEs in Europe and 4.5 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 (data from Census Bureau). On the services side, U.S. and EU services providers increasingly deliver services through their foreign affiliates. In 2016, about half of services supplied by U.S. MNEs were to foreign persons located in the EU, and also about half of sales of services to U.S. persons by U.S. affiliates of foreign-owned MNEs were by EU-based MNEs (BEA data).

In 2018, the largest destinations in the EU for U.S. investment (historical-cost basis) were: the Netherlands (\$883 billion), the UK (\$758 billion), Luxembourg (\$714 billion), and Ireland (\$442 billion). The largest sources of FDI to the United States from the EU were: the UK (\$561 billion), the Netherlands (\$479 billion), Luxembourg (\$356 billion), and Germany (\$324 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

Members of Congress may examine the role of U.S.-EU trade and investment ties in bolstering the U.S. economy and U.S. prosperity, any negative effects of these ties for U.S. economic interests, and implications of any changes to these ties for their constituents. Potential changes to U.S. trade policy—such as addressing tariffs and other and other frictions in U.S.-EU trade relations and pursuing further liberalization through the negotiation of a proposed U.S.-EU trade agreement—could affect U.S.-EU trade and investment flows, and could have implications 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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