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## U.S.-UK Trade Relations

The United Kingdom (UK) is a major U.S. trade and economic partner. Given their scope, size, and economic and political significance, U.S.-UK trade relations are of congressional interest. Areas of inquiry may include U.S. efforts to: address specific bilateral trade issues; potentially seek more U.S.-UK trade liberalization; and strengthen relations with the UK, among other allies, including by addressing global trade challenges of shared concern.

### UK Economy

At \$2.8 trillion in gross domestic product (current U.S. dollars) in 2020, the UK was the world's fifth-largest economy and Europe's second-largest, after Germany. Services comprised 80% of the UK economy. In 2020, the UK economy shrank by 9.4%, the largest contraction of many advanced countries, amid the Coronavirus Disease 2019 (COVID-19) pandemic and the UK's withdrawal from the European Union (EU) ("Brexit," see [textbox](#)).

#### Brexit: Key Facts and Changes

On January 31, 2020, the UK withdrew from the EU. After a transition period, the UK left the EU single market and customs union on January 1, 2021, regaining control over its trade policy. Brexit outcomes have major implications for UK trade ties.

#### UK-EU Trade and Cooperation Agreement (TCA)

- Avoids the severe disruption that may have occurred if trade had reverted to World Trade Organization (WTO) terms.
- Does not replicate EU single market access. Adds new trade frictions, e.g., border checks and regulatory requirements.
- Leaves some issues uncertain, including UK financial services firms' continued access to the EU—previously through a "passporting" to access the EU markets without setting up legally separate subsidiaries.

#### Northern Ireland-EU Trade Protocol

- Aims to keep an open border on the island of Ireland, while protecting the EU single market.

Implementation has disrupted some trade between Northern Ireland and the rest of the UK, and raised tensions within Northern Ireland and between the UK and the EU. (For more information, see CRS Report R46259, *Northern Ireland: The Peace Process, Ongoing Challenges, and U.S. Interests*.)

#### UK in the WTO

- Founding WTO member. Previously, within the EU's goods and services "schedules" (e.g., tariff concessions). Now, has its own schedules, on which it negotiated with WTO members.
- Has continued its participation, in its own right, in the WTO plurilateral Government Procurement Agreement.

#### UK-Non-EU Trade and Broader Trade Interests

- The UK is replicating with other countries EU trade deals that no longer apply to the UK, and also pursuing new trade deals.
- For example, the UK signed trade deals with Australia and Japan, and applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), formed after the U.S. withdrawal from TPP in 2017. Other priorities have included pursuing trade negotiations with the United States.
- The UK seeks to rebalance non-EU trade ties, grow UK exports, and develop UK supply chains, among other aims.

The UK economy rebounded by 7.2% in 2021, a year in which the UK lifted COVID-19-related restrictions, but also

faced post-Brexit trade disruptions. The UK economy may grow more slowly (4.7% projected) in 2022, but faster than many other advanced economies, including Germany and the United States (3.8% and 4.0% growth projected in 2022, respectively). Continued pressures on the UK economy may include supply disruptions, labor shortages, and inflation.

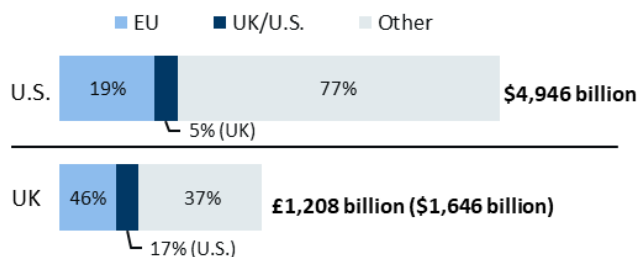
The effects of COVID-19 and Brexit on the UK economy have been difficult to disentangle. While pandemic effects may be short-term, an official UK estimate suggests that UK productivity may be 4% lower long-term due to Brexit.

### U.S.-UK Trade and Investment Ties

In 2020, the UK was the United States' seventh-largest goods trading partner by country, and its largest services trading partner. The UK comprised 5% of total U.S. trade, and the United States was nearly one-fifth of total UK trade (see [Figure 1](#)). The EU, as a bloc, was each country's largest trading partner.

**Figure 1. Share of U.S. and UK Total Trade**

**Total 2020 goods and services trade (exports and imports) with selected trading partners**



**Source:** CRS, data from the U.S. Bureau of Economic Analysis (BEA) and the UK Office for National Statistics (ONS).

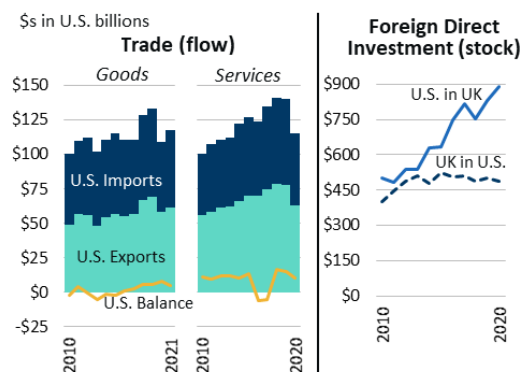
**Note:** Parts may not sum to whole due to rounding.

According to U.S. Bureau of Economic Analysis (BEA) data (values rounded), in 2021, total U.S. goods trade with the UK was \$118 billion (\$61 billion in exports, and \$56 billion in imports) (see [Figure 2](#)). This exceeded the 2020 level (total of \$109 billion, with \$58 billion in exports and \$50 billion in imports), but it did not reach the pre-pandemic and pre-Brexit level. In 2020 (latest data), total U.S.-UK services trade was \$115 billion (\$63 billion in exports, and \$53 billion in imports). In recent years, each country's trade data has shown an overall trade surplus with the other. Such asymmetries can arise for many reasons, including differences in source data and coverage.

In 2020, top U.S. goods exports were nonferrous metals (excluding aluminum), aerospace products and parts, and oil and gas; and top U.S. goods imports were pharmaceuticals, motor vehicles, and aerospace products and parts. Financial services, various business services, transport, intellectual property rights (IPR), and travel—which has been constrained by the pandemic—historically have comprised a large share of bilateral services trade.

Foreign direct investment (FDI) is a key aspect of bilateral trade. In 2020, the UK was the top destination, by country, for U.S. FDI. In 2020, the U.S. FDI stock in the UK was \$890 billion, and the UK FDI stock in the United States was \$487 billion. UK financial and insurance sectors, and non-bank holding companies, have drawn most U.S. FDI, as has the U.S. manufacturing sector for UK FDI. U.S. and UK affiliate activity supported 2.7 million workers in the two countries in 2019. (BEA data.) More than 7,500 U.S. firms have a UK presence, which can act as a hub for activity in Europe, the Middle East, and Africa. Brexit and its aftermath have presented uncertainty for many U.S. firms.

**Figure 2. U.S.-UK Trade and Investment**



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

## Bilateral Trade Issues

The United States and the UK historically have been leading forces for global trade liberalization. Their trading relationship is relatively open, but some tariff and non-tariff barriers remain. While their trade policies are aligned on many fronts, frictions emerge periodically on specific issues, such as on tariffs during the Trump Administration. President Biden has “conveyed his intention to strengthen the [U.S.-UK] special relationship ... and revitalize transatlantic ties.” The two countries signed a “New Atlantic Charter” in 2021 that emphasizes “open and fair trade.”

**Trade Frictions and Resolutions.** In June 2021, the United States and the UK reached an understanding on a cooperative framework to address their long-running dispute in the WTO over civilian aircraft subsidies to Boeing and Airbus, respectively. They agreed to suspend dispute-related tariffs while seeking a longer-term solution, and to cooperate on related challenges posed by non-market economies, such as China. The United States and the EU reached a similar, separate understanding on parallel issues.

In a November 2021 political agreement, the UK pledged to transition from its digital services tax (DST)—taxes on revenues that certain companies generate from providing digital services—to a new global tax framework (which signatories must take steps domestically to implement). In exchange, the United States canceled additional, already suspended duties on certain imports from the UK. The duties arose from a U.S. “Section 301” investigation, prompted by concerns that the UK’s DST unfairly targeted U.S. firms. The United States reached similar political agreements with some other countries, including in the EU. The United States and the UK are working to address frictions over U.S. “Section 232” tariffs on steel and aluminum imports from the UK, and UK retaliatory tariffs on some U.S. exports. Stakeholders disagree on whether the

two countries should replicate a U.S.-EU deal on parallel issues that replaces U.S. steel and aluminum tariffs with a tariff-rate quota system and commit to cooperation on related global overcapacity and carbon emissions issues.

**Other Issues.** The United States and the UK aim to deepen their partnership to facilitate cross-border data flows while ensuring data protections. They also are working with other partners on global supply chain challenges. Their views may vary on some trade issues. For instance, the Biden Administration has voiced support for the concept of a limited IPR waiver in the WTO for COVID-19 vaccines (but some Members of Congress disagree). The UK has favored other responses to support vaccine access.

**Potential U.S.-UK Trade Agreement.** Brexit opened up the possibility of a U.S.-UK free trade agreement (FTA). The Biden Administration has been reviewing the bilateral trade negotiations that occurred during the Trump Administration under the latest Trade Promotion Authority (TPA, which expired in 2021). The two countries held five negotiation rounds in 2020, but did not reach a final FTA. For the UK, a trade deal with the United States has been a major priority to showcase its post-Brexit competitiveness.

Some experts are optimistic about the success of any future U.S.-UK FTA negotiations, given historical similarities in U.S. and UK trade approaches, but flashpoints could reemerge in such talks. Many in U.S. industry see an FTA as a way to enhance market access and regulatory alignment. Other stakeholders, including in UK civil society, oppose perceived efforts to weaken UK regulations. An active issue in this regard is UK agricultural market access and food safety regulations. Another flashpoint may be trade in pharmaceuticals. While the United States had sought full, transparent, and non-discriminatory access to the UK pharmaceutical market, some in UK civil society feared that an FTA would privatize health services and raise drug prices, despite assurances from UK officials that these issues were not up for negotiation. Financial services, e-commerce, and investment may be among other contentious areas.

## Selected Issues for Congress

Members may continue to monitor U.S. trade and economic interests at stake in the TCA’s implementation. They also may consider whether to press the Administration to continue to prioritize resolving specific trade issues, and/or renew broader U.S.-UK FTA negotiations. In doing so, they may examine the potential benefits and costs of further U.S.-UK trade liberalization (or its absence) for the firms and workers in their districts and states.

Many in Congress and in U.S. industry support a U.S.-UK FTA. Many Members tie their support to ensuring that Brexit outcomes do not undermine the Northern Ireland peace process. A potential TPA renewal debate could heighten these issues. If FTA talks proceed, Congress may monitor and shape them, and consider implementing legislation for a final agreement. Additionally, Members may examine other ways to engage further on bilateral and global trade issues of shared concern, e.g., sectoral regulatory cooperation or dialogues.

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