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U.S.-UK Trade Relations

The United Kingdom (UK) is a major U.S. trade and economic partner. U.S.-UK trade and investment ties—given their scope, size, and economic and political significance—are of oversight and legislative interest for Congress. In the 118th Congress, Members may assess opportunities for expanding U.S.-UK trade and investment ties, including through ongoing dialogues and a potential bilateral free trade agreement (FTA). They also may assess U.S.-UK efforts to address specific bilateral trade frictions and global trade challenges of shared concern.

UK Economy

In 2022, the UK slid one spot to rank as the world's sixth-largest economy (International Monetary Fund, IMF, estimated data for gross domestic product, GDP, current prices). Services industries account for 80% of the UK's economic output (2021 data, UK Office for National Statistics, ONS). In 2022, real GDP in the UK grew an estimated 4.1% (IMF data). During that year, the UK faced political upheaval and financial instability with the changeover of three different prime ministers, alongside continued economic pressures including supply disruptions, slowing business investment, labor shortages, and inflation. The UK economy is forecast to contract in 2023 (-0.6%, according to the IMF).

A major development for the UK's economy and external trade relations has been "Brexit," the UK's departure from the European Union (EU) on January 31, 2020. After a transition period, the UK left the EU single market and customs union on January 1, 2021, regaining control of its trade policy. The Trade and Cooperation Agreement (TCA) underpins the UK-EU post-Brexit trade and economic relationship. The TCA avoids the severe disruption anticipated if UK-EU trade had reverted to World Trade Organization (WTO) terms. Yet, it does not replicate EU single market access and adds new border checks and regulatory requirements. The TCA did not fully address some issues, including financial services. UK-EU efforts to reach a deal on regulatory cooperation on financial services have stalled, to date.

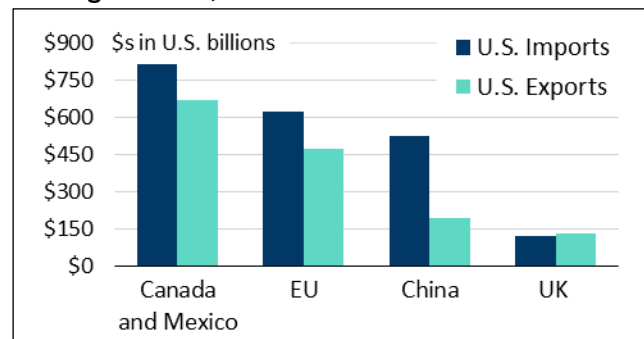
A point of friction has been the Ireland/Northern Ireland Protocol of the UK-EU Withdrawal Agreement. The Protocol keeps Northern Ireland, unlike the rest of the UK, aligned with some EU trade rules to maintain an open border on the island of Ireland, while trying to ensure the integrity of the EU single market. Implementation of the Protocol 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. In February 2023, the UK and EU reached a framework agreement to address challenges posed by the Protocol, including to ease checks on certain goods entering Northern Ireland; the deal requires formal UK and EU approval. (See CRS Report R46259, *Northern Ireland: The Peace Process, Ongoing Challenges, and U.S. Interests*, by Kristin Archick.)

Brexit has presented trade disruptions and adjustment costs for some firms. The economic effects of Brexit have been challenging to disentangle from the other developments such as the effects of the COVID-19 pandemic. An official UK estimate suggests that UK productivity may be 4% lower long-term due to Brexit.

U.S.-UK Trade and Investment Ties

The United States and UK are key trading partners, but each country trades more with the EU than each other (see **Figure 1** for select U.S. trade data). The UK was the United States' seventh-largest overall trading partner for goods in 2022, and its largest overall services trading partner in 2021 (latest data available), by country. In terms of the UK's goods and services trade, in 2021, the United States was the UK's largest trading partner, by country, accounting for 21% of the UK's exports and 12% of its imports; the EU bloc accounted for 42% of the UK's exports and 45% of its imports (based on ONS data).

Figure 1. U.S. Goods and Services Trade with Select Trading Partners, 2021



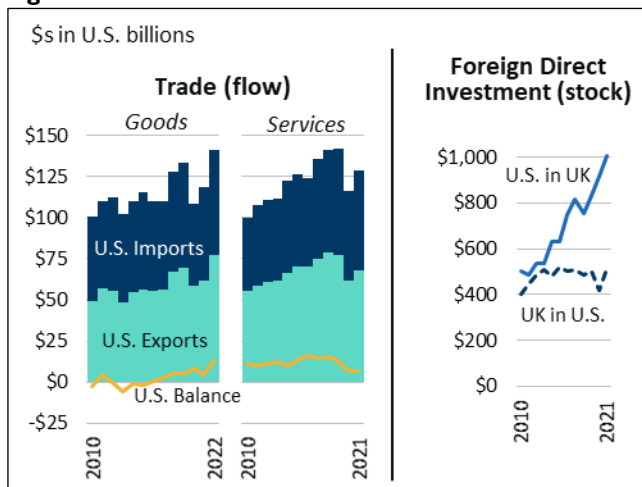
Source: CRS, with U.S. Bureau of Economic Analysis (BEA) data.

According to the Bureau of Economic Analysis (BEA), in 2022, total U.S. goods trade with the UK was \$141.3 billion (\$77.3 billion in exports, \$64.0 billion in imports) (see **Figure 2**). Top U.S. goods exports included oil and gas; nonferrous metals (excluding aluminum), and aerospace products and parts; and top U.S. goods imports included pharmaceuticals and medicines, motor vehicles, and aerospace products and parts (U.S. International Trade Commission data). Total U.S.-UK services trade in 2021 (latest data available from BEA) was \$128.8 billion (\$67.8 billion in exports, \$61.1 billion in imports). Financial services and various other business services were the top traded services bilaterally.

Foreign direct investment (FDI) is a key aspect of bilateral trade. By country, the United States and UK are each other's largest foreign investors. In 2021, the U.S. FDI stock in the UK exceeded \$1 trillion, and the UK FDI stock in the United States was \$512.4 billion (historical-cost basis). 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 affiliates supported 2.7 million workers in the two countries in 2020 (BEA data). In 2022, more than 7,500 U.S. firms had a UK presence, which can act as a hub for activity in Europe, the Middle East, and Africa.

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



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

Note. Not adjusted for inflation.

Bilateral Trade Issues

The United States and UK have a relatively open trading relationship, but some tariff and non-tariff barriers remain. While U.S. and UK trade policies align on many fronts, frictions emerge periodically on specific issues, such as on tariffs. In 2021, the two countries signed a “New Atlantic Charter” with a focus on “open and fair trade.” Per the Biden Administration’s 2022 trade policy agenda, the partners “will continue to deepen their trade relationship” and address shared concerns related to forced labor in supply chains and distortive practices by non-market economies (NMEs). Amid changes in UK leadership and economic challenges in 2022, President Biden has emphasized the enduring nature of U.S.-UK ties generally.

Brexit allowed the UK to regain control of its trade policy from the EU, and opened up the possibility of a U.S.-UK FTA. In 2018, the Trump Administration formally notified Congress under Trade Promotion Authority (TPA) of its intent to negotiate an FTA with the UK post-Brexit. In 2020, the United States and UK conducted five rounds of bilateral FTA negotiations. They did not reach a final FTA, but achieved some sector-specific regulatory cooperation. The Biden Administration has not renewed or initiated negotiations. Instead, it has worked to address specific trade concerns and engage in other trade initiatives with the UK.

In 2021, the United States and UK reached agreements to address the long-running WTO Boeing-Airbus subsidies dispute, the UK’s digital services taxes, and U.S. “Section 232” steel and aluminum tariffs initially imposed by the Trump Administration. In some of these areas, they also agreed to cooperate on related global economic issues of shared concern (e.g., steel oversupply). New frictions have emerged as well. The UK is among a number of trading partners that have raised concerns that certain provisions in P.L. 117-169 (commonly referred to as the Inflation

Reduction Act of 2022) could discriminate against foreign manufacturers.

In 2022, the United States and UK launched the “U.S./UK Dialogues on the Future of Atlantic Trade,” to further deepen bilateral trade ties and cooperate to address shared challenges. They have focused on issues concerning small- and medium-sized enterprises (SMEs), digital trade, worker rights, supply chains, food security, and climate. They also revived a bilateral dialogue on SME trade issues, and launched a new dialogue on technology and cross-border data flows. They are cooperating on trade issues with other partners, such as on supply chains and sanctions and export restrictions in response to Russia’s war on Ukraine.

UK officials have acknowledged that a bilateral FTA, a post-Brexit UK priority, is unlikely in the near-term. In the meantime, the UK is pursuing economic and trade cooperation with certain U.S. states, such as to support commercial partnerships, research ties, low-carbon economies, and sectoral engagement. The UK has signed memorandums of understanding (MOUs) with Indiana, North Carolina, and South Carolina, for example.

Should the United States and UK revive bilateral FTA talks, some experts are optimistic that the partners could reach a deal, given historical similarities in their trade approaches. Still, flashpoints could reemerge. Some in industry see an FTA as a way to enhance market access and regulatory alignment, while some in civil society oppose perceived efforts to weaken UK food safety and other regulations. Other contentious areas may include pharmaceuticals, financial services, e-commerce, and investment.

Selected Issues for Congress

A key issue for Members may be whether to direct the Administration to pursue FTA negotiations with the UK. Considerations may include the potential benefits and costs of further trade liberalization, the status of U.S.-UK efforts to resolve bilateral frictions, and the impact of UK FTAs with other countries on U.S. commercial competitiveness. The UK, for instance, has signed new trade deals with Australia, Japan, and Singapore, and seeks to join the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP).

Some Members support a U.S.-UK FTA (e.g., S. 4450, 117th Cong.), and some tie their support to ensuring that Brexit outcomes do not undermine the Northern Ireland peace process (e.g., S.Res. 117, 117th Cong.). Potential renewal of TPA, which expired in 2021, could heighten these issues. If FTA talks proceed, Congress could seek to oversee and shape them, and consider legislation to implement a potential final FTA.

Other possible issues include assessing whether current U.S.-UK trade dialogues advance U.S. policy interests or other approaches are warranted. Options include seeking broader-based cooperation—potentially modeled on the U.S.-EU Trade and Technology Council, which has working groups to address a range of issues, including global trade challenges posed by NMEs—or enhanced sector-specific regulatory cooperation. Members also may examine how UK trade policy engagement at the U.S. state level relates to U.S. trade policy on the UK overall.

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