



## 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 congressional interest. In the 118<sup>th</sup> Congress, Members may assess opportunities to expand U.S.-UK trade and investment ties, including through ongoing executive trade initiatives 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 (gross domestic product, GDP, at current prices; International Monetary Fund, IMF, estimate). Real GDP in the UK grew an estimated 4.1% in 2022 and is projected to grow 0.4% in 2023 (IMF data). While the UK’s economy has shown some resilience this year, such as in consumer spending, it continues to face headwinds, including supply disruptions, energy price shocks, business investment challenges, labor shortages, worker strikes, and inflation. Brexit also has presented trade disruptions and adjustments for some firms (see below), but its economic effects have been challenging to disentangle from other factors (e.g., the effects of the COVID-19 pandemic).

**Brexit.** The UK departed 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 to two-way trade ties anticipated if UK and EU had reverted to World Trade Organization (WTO) terms for trade with each other. Yet, the TCA does not replicate EU single market access, and adds new border checks and regulatory requirements. It also does not fully address some issues, including financial services.

The Ireland/Northern Ireland Protocol of the UK-EU Withdrawal Agreement 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 new agreement, the Windsor Framework, to address some Protocol challenges, including to ease checks on certain goods entering Northern Ireland; the UK and EU formally approved the Framework in March 2023. (See CRS Report R46259, *Northern Ireland: The Peace Process, Ongoing Challenges, and U.S. Interests*.)

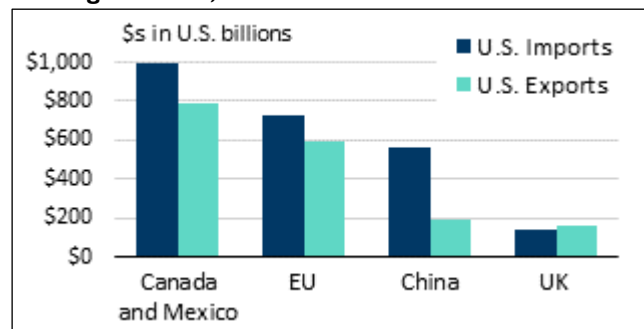
The Windsor Framework may reduce some post-Brexit uncertainty and pave the way for the UK and EU to address

other issues in their post-Brexit economic ties. In June 2023, the UK and EU announced a new memorandum of understanding (MOU) to establish a forum for financial services regulatory cooperation.

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

While the United States trades more with North American partners, the EU, and China than it does with the UK (see **Figure 1**), the U.S.-UK trading relationship is significant, particularly in terms of cross-border services and affiliate activity. By country, the UK was the United States’ seventh-largest goods trade partner and largest services trade partner in 2022. Based on UK trade data, the United States was the UK’s largest trading partner, by country, comprising 21% of the UK’s exports and 12% of its imports. The EU bloc accounted for 42% of the UK’s exports and 48% of its imports.

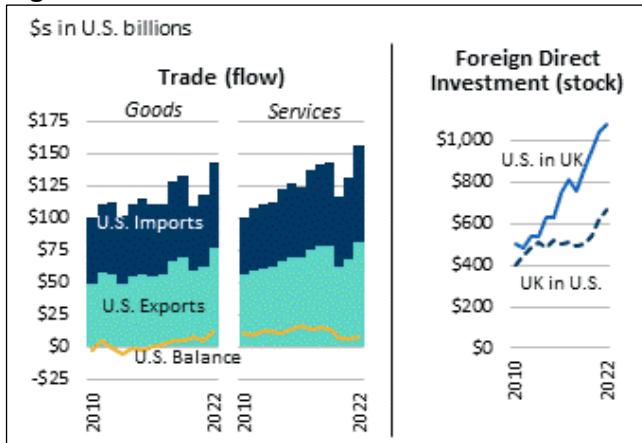
**Figure 1. U.S. Goods and Services Trade with Select Trading Partners, 2022**



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

In 2022, total U.S. goods trade with the UK grew by 20% from 2021 to \$142.4 billion (\$77.0 billion in exports, \$65.4 billion in imports). Total U.S. services trade with the UK grew by 19% to \$155.4 billion (\$82.0 billion in exports, \$73.5 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. Financial services and various other business services were the top traded services. (Data from U.S. Bureau of Economic Analysis, BEA, and U.S. International Trade Commission.)

By country, the United States and UK are each other’s main foreign investors. In 2022, U.S. FDI stock in the UK was \$1.1 trillion, and UK FDI stock in the United States was \$663.4 billion (on a historical-cost basis). UK non-bank holding companies and the finance and insurance sector drew the most U.S. FDI, as did 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. Trade and Investment with the UK**

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

**Note:** Not adjusted for inflation.

**Executive Trade Actions.** The Biden Administration’s engagement with the UK has included efforts to address specific trade concerns and pursue various trade initiatives and dialogues, in parallel to some U.S.-EU efforts. 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).

In 2022, the United States and UK launched bilateral dialogues on the “Future of Atlantic Trade,” to further deepen bilateral trade ties and cooperate to address shared challenges. The dialogues focused on issues concerning small- and medium-sized enterprises (SMEs), digital trade, worker rights, supply chains, food security, and climate. They also revived a dialogue on SMEs, and launched a new dialogue on technology and cross-border data flows.

In June 2023, the United States and UK issued an Atlantic Declaration for a Twenty-First Century U.S.-UK Economic Partnership. In the Declaration, they announced plans for coordinated actions in areas such as critical and emerging technologies, supply chains, digital technology, and clean energy. Among other things, they stated their intent to immediately begin negotiating a targeted critical minerals agreement (CMA), to enable five critical minerals for electric vehicles (EVs) that are extracted or processed in the UK to count towards certain EV tax credit requirements of P.L. 117-169, commonly referred to as the Inflation Reduction Act of 2022 (IRA). The UK, the EU, and other U.S. trading partners had raised concerns that some IRA provisions could discriminate against foreign firms. The United States is also negotiating a CMA with the EU and signed one with Japan in March 2023.

Per the Biden Administration’s 2023 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, most notably China.

**Comprehensive FTA Outlook.** Brexit opened up the possibility of a U.S.-UK bilateral FTA. In 2018, the Trump Administration notified Congress under Trade Promotion

Authority (TPA) of its intent to negotiate an FTA with the UK post-Brexit, and conducted five rounds of negotiations in 2020. The talks did not yield a final U.S.-UK FTA, but some sector-specific regulatory cooperation emerged.

The Biden Administration did not revive comprehensive FTA negotiations with the UK; its trade policy more generally has focused on targeted executive-led trade initiatives and dialogues. 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 MOUS on economic and trade cooperation with some U.S. states (e.g., to support commercial partnerships, research ties, and low-carbon economies).

Should the United States and UK renew 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

Congress may oversee and seek to shape ongoing executive trade initiatives with the UK. In doing so, Congress may assess whether these initiatives sufficiently advance U.S. trade priorities with the UK and what role Congress should play, if any, in the approval of any outcomes of these initiatives. A focal point may be the U.S.-UK CMA negotiations, which could renew debates over U.S. trade policy and the role of Congress that have arisen in the U.S. CMA negotiations that are ongoing with the EU and that were recently concluded with Japan.

Looking forward, Congress may examine whether to direct the Administration to pursue FTA negotiations with the UK and/or sector-specific agreement (e.g., on digital trade). 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. firms’ competitiveness. The UK signed the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) in July 2023—becoming the first new member to join CPTPP.

Some Members support a U.S.-UK FTA, introducing bills to authorize comprehensive trade negotiations with the UK (e.g., S. 4450, 117<sup>th</sup> Congress; H.R. 3653/S. 629, 118<sup>th</sup> Congress). Some Members have tied their support of a U.S.-UK FTA to ensuring that Brexit outcomes do not undermine the Northern Ireland peace process (e.g., S.Res. 117, 117<sup>th</sup> Congress, and S.Res. 157, 118<sup>th</sup> Congress, both passed in the Senate). Congressional interest in a U.S. FTA with the UK could factor into debate over potential renewal of TPA, which expired in 2021. Entry-into-force of any final FTA would require congressional approval.

Congress 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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