EXECUTIVE SUMMARY

DANIEL S. HAMILTON AND JOSEPH P. QUINLAN

CENTER FOR TRANSATLANTIC RELATIONS JOHNS HOPKINS UNIVERSITY | PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES

THE TRANSATLANTIC ECONOMY 2013

Annual Survey of Jobs, Trade and Investment between the United States and Europe

TBC
TRANSATLANTIC BUSINESS COUNCIL

CENTER FOR TRANSATLANTIC RELATIONS

50 YEARS AMCHAM EU
AMERICAN CHAMBER OF COMMERCE TO THE EUROPEAN UNION
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

Center for Transatlantic Relations
American Consortium on EU Studies
EU Center of Excellence Washington, DC
The Paul H. Nitze School of Advanced International Studies
The Johns Hopkins University
1717 Massachusetts Ave., NW, Suite 525
Washington, DC 20036
Tel: (202) 663-5880
Fax: (202) 663-5879
Email: transatlantic@jhu.edu
http://transatlantic.sais-jhu.edu

American Chamber of Commerce
to the European Union (AmCham EU)
www.amchameu.eu
Avenue des Arts 53
1000 Brussels, Belgium
Tel: +32 (0)2 513 68 92
Fax: +32 (0)2 513 79 28
Email: amchameu@amchameu.eu

Transatlantic Business Council
www.transatlanticbusiness.org
Washington Office
919 18th Street, NW
Washington, DC 20006
Tel: +1 (202) 828-9104
Email: dnunnery@transatlanticbusiness.org

Brussels Office
Avenue de Cortenbergh 168
B-1000 Brussels
Tel: +32 485 707 215
Email: jkorwek@transatlanticbusiness.org

EXECUTIVE SUMMARY

- Despite economic turbulence, the US and Europe remain each other's most important markets. No other commercial artery in the world is as integrated.
- The transatlantic economy generates $5.3 trillion in total commercial sales a year and employs up to 15 million workers in "onshored" jobs on both sides of the Atlantic.
- The transatlantic economy is the largest and wealthiest market in the world: over 50% of world GDP in terms of value and 41% of GDP in terms of purchasing power.
- As globalization proceeds and emerging markets rise, however, transatlantic markets are shifting from a position of preeminence to one of predominance – still considerable, but less overwhelming than in the past.

Cautious Optimism

- Risks linger in 2013. The eurozone is expected to contract slightly and the US to grow by 2%.
- The eurozone crisis is not over, but the most dangerous phase has passed. Europe is in for another grinding year, but the foundation for stronger growth has been laid.

Investment Drives the Transatlantic Economy

» The US and Europe are each other's primary source and destination for foreign direct investment.

The US in Europe

» Europe has attracted 56% of US global foreign direct investment (FDI) since 2000.

» US FDI to Europe in 2012 topped $206 billion, the 3rd strongest annual level on record.

» The UK, the Netherlands and Ireland account for just over 60% of US investment to Europe.

» Within Europe, America's top overseas market has shifted from the UK to the Netherlands; US FDI is shifting to Ireland and eastern Europe from much of western Europe.

» US FDI flows to Poland soared by over 250% in the first nine months of 2012 from a year before, reaching $662 million. US investment stock in Poland rose from $1 billion in 1995 to over $12 billion in 2011, larger than US investment in Indonesia.

» US investment stock in the Czech Republic, $5.3 billion in 2011, matched US investment in the Philippines.

» US investment to Turkey in first 3 quarters of 2012 was $1.5 billion, a rise of 85%; and inflows to Switzerland were quite strong, $16 billion, a 73% surge.

» US FDI to Spain and Italy has fallen sharply. Egypt reported more U.S. investment than Spain/Italy together.

- China accounted for just 1.1% of total global US investment between 2000 and Q3 2012, trailing Belgium, France, Germany, Ireland, the Netherlands Spain, Switzerland and the UK.
- US investment in Ireland from 2000-Q3 2012 was more than 6 times larger than US investment in China.
- US investment in the Netherlands was more than 14 times larger and in the UK more than 11 times larger than in China.
- Most surprising: over the past two years US companies have actually *dis*invested in China. They on balance *withdrew* investments from China of $1.7 billion in 2011 and $4.8 billion in 2012, while investing $224.3 billion in Europe in 2011 and $203.3 billion in 2012.
- Since 2000, US firms have invested more in the Netherlands ($442 billion) alone and in the UK ($356 billion) alone than in South and Central America, the Middle East, and Africa combined ($308 billion).
- US cumulative investment in Brazil since 2000 ($43.8 billion) is roughly 80% of total investment in Belgium ($53 billion) and 1/5 of total investment in Ireland.
- US FDI in Russia since 2000 ($10.2 billion) has been less than in such smaller European markets as Norway ($14.4 billion) and Denmark ($13.5 billion).
- Since 2000 Corporate America has invested about the same in India ($26.6 billion) as in Italy.
- On a historic cost basis, the US investment position in Europe was 14 times larger than the BRICs and nearly 4 times larger than in all of Asia at the end of 2011.

- US investment in the Netherlands alone is about 4 times greater, and US investment in the UK 3 times greater, than US investment in all the BRICs.
- America's investment stakes in Ireland ($188 billion) were much greater than in South America ($148 billion).
- There is more US investment in Germany ($107 billion) than in all of Central America, including Mexico ($104 billion).
- US investment in Switzerland ($125 billion) is more than double US FDI investment in Africa ($57 billion).
- Corporate America's foreign assets totaled $21 trillion in 2011. 57% of these assets—$12 trillion—were located in Europe. Largest share: the UK (23%, $4.7 trillion).
- US assets in the Netherlands ($1.8 trillion) were the second largest in the world in 2011.
- America's asset base in Germany ($683 billion) in 2011 was over 50% larger than in all of South America.
- America's collective asset base in Poland, Hungary, and the Czech Republic (roughly $147 billion, up from $85 billion in 2008) was much larger than the size of corporate America's assets in India (est. $95 billion).
- US assets in Ireland totaled $900 billion in 2011, more than in either Switzerland or France. Ireland accounted for 7.6% of total US assets in Europe in 2011.
- US affiliate output in Europe rose 3% in 2011 to total $615 billion, still below the high of $660 billion in 2008.

- Global output of U.S. affiliates reached nearly $1.3 trillion in 2011; Europe accounted for 46% of the total.
- The UK accounted for 25% of total US affiliate output in Europe; Germany 14% and France 8%.
- These 3 countries accounted for 47% of total US affiliate output in Europe in 2011, down from 63% of the total in 2000, reflecting greater diffusion of US affiliate production across Europe.
- By sector, output was almost evenly split between services (52%) and manufacturing (48%).
- US affiliates accounted for over 25% of Ireland's total output in 2011; 6.4% of UK output; 5.8% of Norway; 5.2% of Switzerland; and 5.0% of Belgium.
- US foreign affiliate output in Belgium in 2011 (roughly $25.6 billion) was more than 40% larger than US foreign affiliate output in India (est. $18 billion).
- US affiliate output in Poland totaled an estimated $10.9 billion in 2011, exceeding US output in Russia and in Austria, Portugal, and Denmark. Affiliate output in Poland quintupled between 2000 and 2011.
- US affiliate sales in Europe of $2.6 trillion accounted for 47% of worldwide sales in 2011. We anticipate a new record sales high in Europe of $3 trillion by 2014.
- Sales of US affiliates in Europe in 2010 were roughly double comparable sales in the entire Asia/Pacific.
- Affiliate sales in the UK ($599 billion) were double sales in South America.

- While US affiliate sales in China have soared over the past decade, they do so from a low base, and still remain well below comparable sales in Europe.

- US affiliate sales of $170 billion in China in 2010 were below those in Switzerland ($262 billion), Ireland ($260 billion), the Netherlands ($204 billion), France ($199 billion).

- Europe remains the most profitable region of the world for US companies. US foreign affiliate income earned in Europe rose in 2012 to $214 billion—a record high.

- Since 2000, Europe has accounted for over 56% of total US foreign affiliate income.

- Affiliate income soared 55% in Poland for the first 3 quarters of 2012; was up 12% in UK and 4% in Ireland.

- Affiliate income fell in France (-25%), Germany (-32%), Spain and Greece (each -73%), Italy (-41%), and Portugal (-33%).

- US affiliate income from China and India in 2011 ($13.1 billion) was only 1/4 of US affiliate earnings in the Netherlands ($55 billion) and less than half US affiliate earnings in the UK ($31 billion) or Ireland ($29 billion).

- In the first nine months of 2012, US affiliate income from Europe—$160 billion—was more than combined US affiliate income from Latin America ($67 billion) and Asia ($57 billion).

- US affiliate income in China ($9 billion) and Brazil ($7 billion) combined was well below affiliate income in Ireland ($23 billion) alone, but each was above that in Germany ($2.7 billion) and France ($2.5 billion).

Europe in the US

- European investment in the US, on historic cost basis, was $1.8 trillion in 2011, 71% of total FDI in the US.
- Major investors—UK ($442 billion), Netherlands ($240 billion), Germany ($216 billion) and Switzerland ($212 billion).
- Deep investment ties with Europe generate additional US exports. US affiliates of foreign firms generated about 21% of US exports in 2011. More than half were provided by European companies based in the US.
- European financial firms have scaled back their presence in the US because Europe's sovereign debt crisis forced banks to raise capital at home.
- By country, year-over-year declines [Jan.-Sept] in FDI inflows to the US were posted by Germany (-91%), Netherlands (-76%), Norway (-72%), Spain (-58%), Switzerland (-67%), Italy (-45%), and the UK (-30%).
- Nonetheless, even in bad year 2011 Europe's investment flows to the US were 7 times larger than to China.
- In 2011 total assets of European affiliates in the US were an estimated $8.6 trillion. UK firms held $2.2 trillion; German firms $1.5 trillion; Swiss and French $1.3 trillion each; and Dutch firms $959 billion.
- The US is the most important market for earnings of many European multinationals. European affiliate income in the US rose in 2012 to a record $117 billion.
- French, Italian and Belgian affiliate income in the US in the first nine months of 2012 rose 31%, 28%, and 13%.

- European affiliate output in the US rose by nearly 4% in 2011, totaling over $440 billion, a record high.
- The 2011 output of UK firms in the US of nearly $119 billion was more than a quarter of the European total.
- German affiliate output totaled $81 billion, almost one-fifth of the total. French affiliate output ($60 billion) accounted for 14% of the total.
- Beyond European affiliates, only Corporate Japan has any real economic presence in the US—Japanese affiliate output totaled $82 billion in 2010, below UK output and roughly similar to German affiliate output.
- Overall, foreign affiliates contributed nearly $672 billion to US aggregate production in 2011, with European affiliates accounting for roughly two-thirds of the total.
- Affiliate sales, not trade, are the primary means by which European firms deliver goods and services to US consumers. In 2011 European affiliate sales in the US ($1.9 trillion) were more than triple US imports from Europe ($632 billion), and rose roughly 4%.
- Sales by British affiliates in the US totaled an estimated $440 billion in 2011, followed by German affiliate sales ($389 billion).

Transatlantic Trade

- » US-EU merchandise trade totaled an estimated $650 billion in 2012, up 68% from $387 billion in 2000.
- » US merchandise exports to Europe were relatively robust; many U.S. states posting double-digit gains. The export picture softened in 2012, however, as Europe's economic engine continued to sputter.
- » For 2012, the US trade deficit with the EU is forecast to be roughly double the 2009 level. Germany accounted for nearly half the deficit.
- » US exports to the EU in the first eleven months of 2012 fell by roughly 1%, with exports dropping 12.5% to Spain; 4.8% to the Netherlands; and 3.2% to Ireland.
- » US imports from Europe were up 4.3%; up 10.8% from Germany; 8.8% from the UK; and 4.8% from France.
- » Despite Europe's uneven economy, 45 of 50 US states still exported more to Europe than to China in 2012, and by a wide margin in many cases.
- » January-September 2012 Florida exports to Europe were more than 11 times its exports to China; New Jersey exports to Europe were 9 times greater than to China. New York, Connecticut and Virginia each exported 7 times as much to Europe as to China. Texas, the leading U.S. state exporter to Europe, sent almost 4 times as many goods to Europe as to China. Illinois' exports to Europe were more than triple its exports to China.

» California, Michigan and North Carolina each exported twice as much to Europe as to China.

» Germany was the top European export market for 19 US states in 2011. The UK was the top for 11 states. The Netherlands was top for 9 states.

» Under new WTO/OECD ''value-added'' calculations, the US in 2009 was the major customer and supplier for Germany, the UK, France and Italy. Germany followed only Canada as the most important export market for the United States, ahead of Mexico and China.

Transatlantic Services: The Sleeping Giant

» The US and Europe are the two leading services economies in the world. The US is the largest single country trader in services; the EU is the largest trader in services among all world regions.

» The EU ranks 1st in each major category of global services trade; 41.1% of world travel receipts; 47.6% of world exports of transportation services; and half of world exports of other commercial services.

» By country, the US was number one in world travel receipts in 2010—14% share; world transportation receipts—9.12% share; and other commercial services—16%.

» Five of the top 10 export markets for US services are in Europe; the US enjoyed a $52 billion private services trade surplus with the EU in 2011, compared with its $100 billion goods trade deficit the EU.

- For all of Europe in 2011, the US surplus in services was $62 billion; trade deficit in goods $118 billion.
- In the first 3 quarters of 2012 US services exports to Europe totaled $176 billion, a 3.5% rise from year before; and $39 billion trade surplus in services.
- Transatlantic services trade figures are impressive, but the more important services linkages are actually in mutual flows of foreign direct investment.
- Sales of services by US foreign affiliates in Europe—$576 billion in 2010—were more than 2.5 times US services exports to Europe in 2010.
- The UK alone accounted for around 32% of all US affiliate sales in Europe in 2010—$187.2 billion, more than combined U.S. affiliate sales of services in South and Central America ($132 billion), Africa ($11.8 billion) and the Middle East ($15 billion).
- Europe accounted for 51% of global U.S. services sales.
- Sales of services by US affiliates of European firms of $435 billion in 2010 were more than 2.5 times US services imports from Europe.
- New WTO/OECD "value added" measurements indicate that services accounted for 60% of the value of all UK gross exports; 56% of all U.S. exports; 55% of all EU exports; and 50% of all German exports in 2009.

Transatlantic Jobs

- » Most foreigners working for US companies outside the US are Europeans, and most foreigners working for European companies outside the EU are American.
- » US affiliates in Germany, France and the UK employ twice the workers of US affiliates in China.
- » European companies in the US employ millions of American workers and are the largest source of onshored jobs in America.
- » Similarly, US companies in Europe employ millions of European workers and are the largest source of onshored jobs in Europe.
- » 2000-2010 US foreign affiliate employment in Europe rose nearly 11% from 3.7 million to over 4.1 million.
- » US affiliates employed many more manufacturing workers in Europe (1.7 million) in 2010 than they did in 1990 (1.6 million). Yet they have shifted towards lower cost locations like Ireland and Poland.
- » US affiliates employ more Europeans in services than in manufacturing. Manufacturing accounted for just 42% of total employment by US affiliates in Europe in 2010.
- » US affiliates in Germany employed 351,000 workers in 2010, above those employed in Brazil (313,000) and India (126,000) yet below China (562,000).
- » European majority-owned foreign affiliates employed roughly 3.5 million US workers in 2011, some 563,000 less than US affiliates employed in Europe.

- The top five European employers in the US in 2011 were firms from the UK (910,000, down from 978,000 in 2008), Germany (589,000, down from 617,000 in 2008), France (489,000, down from 554,000 in 2008), Switzerland (416,000, up from 389,000 in 2008) and the Netherlands (350,000, up from 349,000 in 2008).

- European firms employed 2/3 of all US workers on the payrolls of majority-owned foreign affiliates in 2011.

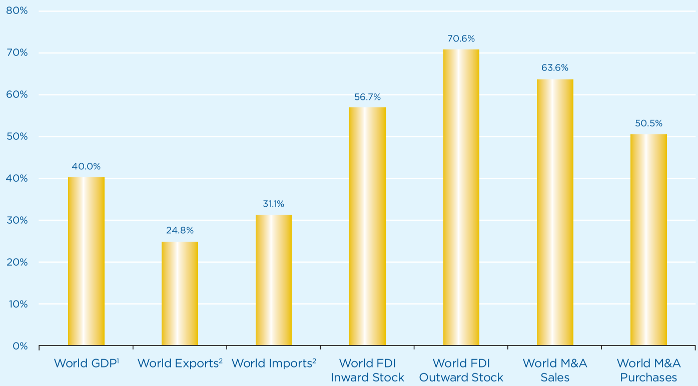
The Transatlantic Innovation Economy

- In 2010 US affiliates invested $24.4 billion in R&D in Europe, roughly 62% of total global R&D expenditures by US foreign affiliates. R&D expenditures were greatest in Germany, the UK, Switzerland, France, the Netherlands, Belgium and Ireland. These 7 countries accounted for nearly 86% of US global spending on R&D in Europe in 2010.

- R&D spending by European affiliates in the US totaled $31.3 billion, up from $30 billion the prior year, and accounting for three-fourths of all R&D performed by majority-owned foreign affiliates in the United States.

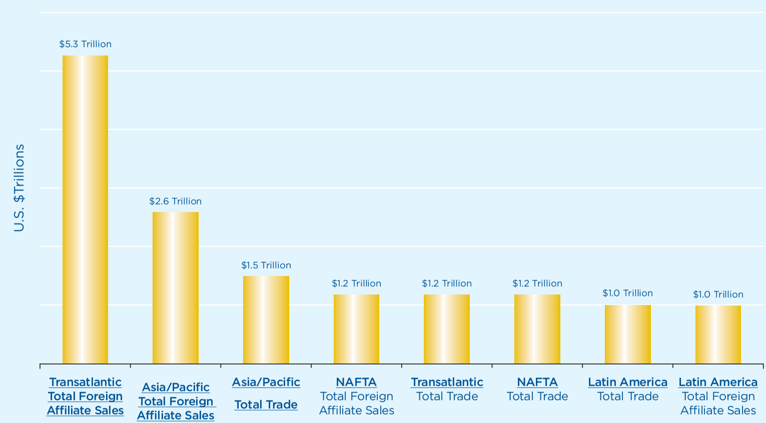
- Swiss-owned R&D in the US totaled $9 billion in 2010 and accounted for 21% of total affiliate R&D. British, German and French affiliates accounted for a 14.5%, 13.6% and 13.0% share respectively.

THE TRANSATLANTIC ECONOMY VS. THE WORLD - SHARE OF WORLD TOTAL



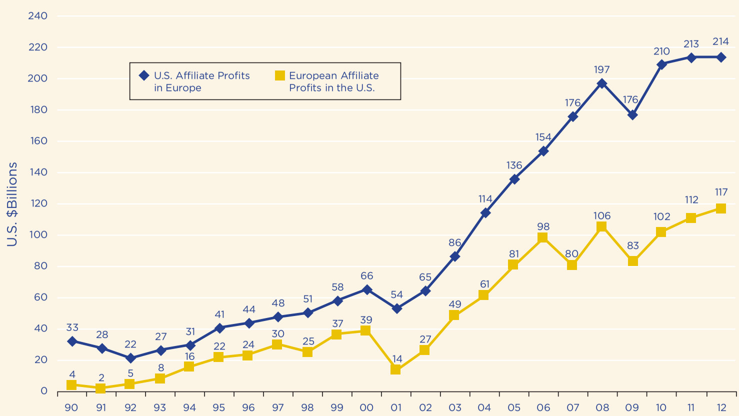
Sources: UN, IMF, figures for 2011
1. Based on PPP estimates,
2. Excluding intra-EU, Norway, Switzerland and Iceland trade.

AMERICA'S MAJOR COMMERCIAL ARTERIES



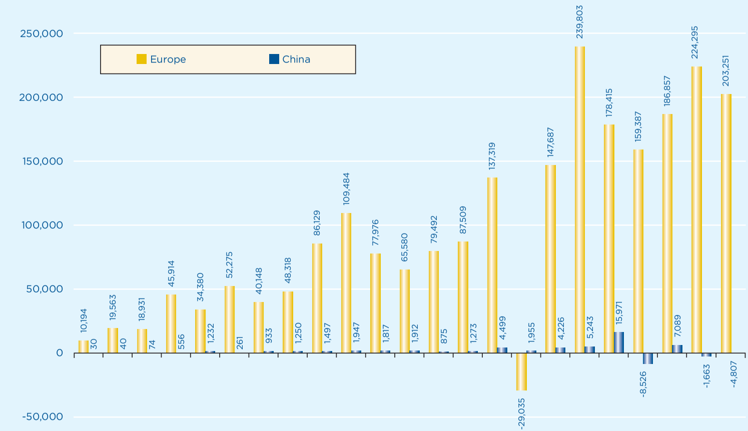
Foreign Affiliate Sales: Estimates for 2011. Total Trade: Data for goods & services, 2011.
Source: Bureau of Economic Analysis.

PROFITS[1] REACHING PEAK AGAIN



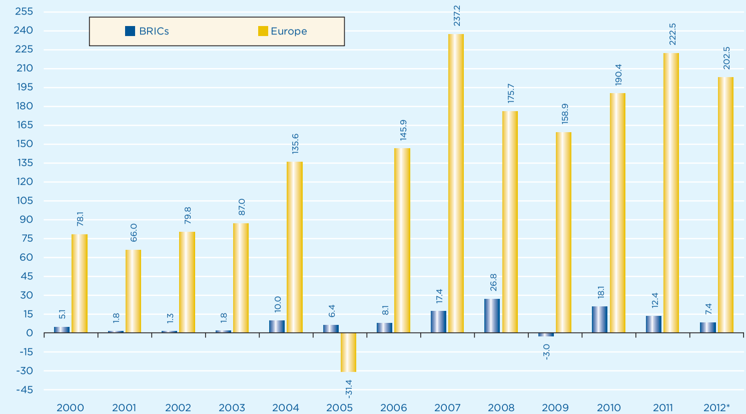
[1]*Income of affiliates*
Source: Bureau of Economic Analysis
Data through 3Q2012. 2012 data is annualized for full year estimate.

U.S. FOREIGN DIRECT INVESTMENT FLOWS TO CHINA VS. EUROPE - MILLIONS OF $



Source: Bureau of Economic Analysis
** Data through 3Q2012. Data annualized for full year estimate*

U.S. FOREIGN DIRECT INVESTMENT OUTFLOWS TO THE BRICS VS. EUROPE[1] - BILLIONS OF $



Source: Bureau of Economic Analysis

[1] Europe does not include flows to Russia

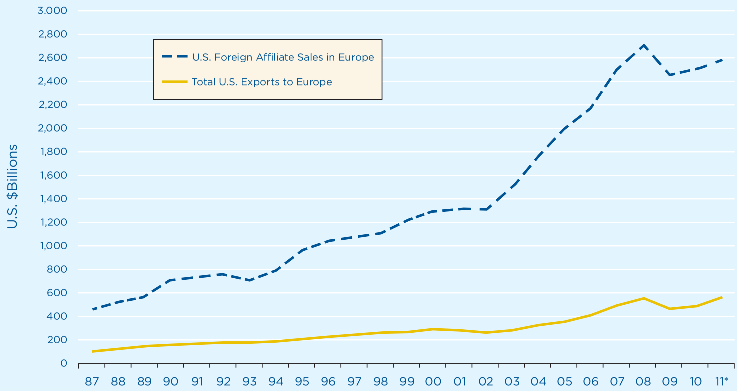
** Data through 3Q2012. Data annualized for full year estimate*

COMPARING FREE TRADE AGREEMENTS (BILLIONS OF $ UNLESS OTHERWISE SPECIFIED)

	Transatlantic Trade and Investment Partnership	Transpacific Partnership	NAFTA
GDP (Purchasing Power Parity)	15,853	5,802	3,062
% of World Total	20.1%	7.3%	3.9%
Population (thousands)	501,917	346,079	149,143
% of World Total	7.2%	5.0%	2.1%
Per Capita Income ($)	35,087	16,329	19,397
Personal Consumption Expenditures	10,195	3,243	1,744
% of World Total	25.2%	8.0%	4.3%
Exports	5,854	1,976	802
% of World Total	32.8%	11.1%	4.5%
Imports	6,063	1,957	882
% of World Total	33.1%	10.7%	4.8%
U.S. Outward FDI Stock to...	2,094	727	410
% of U.S. Total	50.4%	17.5%	9.9%
U.S. Inward FDI Stock from...	1,573	307	225
% of U.S. Total	61.8%	12.0%	8.8%
U.S. FDI Income Earned Abroad	177	95	53
% of U.S. Total	38.7%	20.9%	11.5%
Foreign FDI Income Earning in the U.S.	95	18	13
% of U.S. Total	62.9%	11.9%	8.5%
Foreign Affiliate Sales of U.S. MNC's in...*	2,107	1,321	761
% of U.S. Total	40.8%	25.6%	14.7%
U.S. Affiliate Sales of Foreign MNC's from...*	1,609	309	245
% of U.S. Total	52.1%	10.0%	8.0%

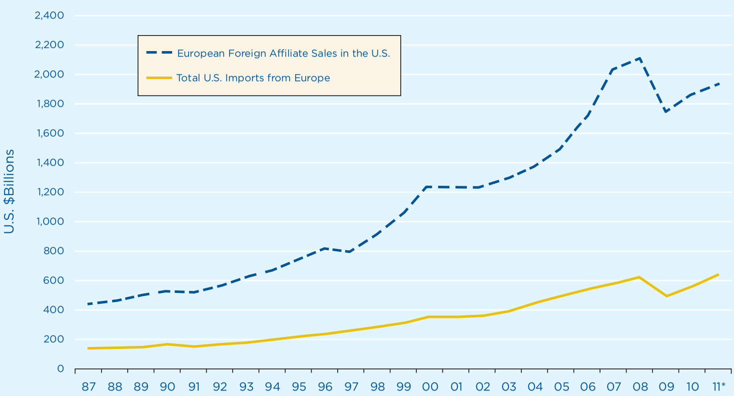
Sources: IMF; UN; BEA.
Data for 2011
**Data for 2010*

SALES OF U.S. AFFILIATES IN EUROPE VS. U.S. EXPORTS TO EUROPE



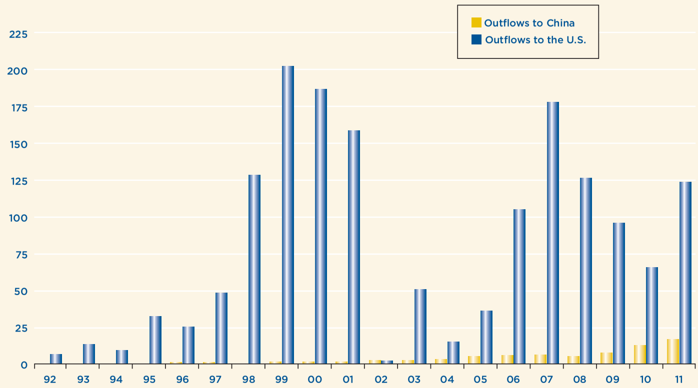
*Estimate for sales
Source: Bureau of Economic Analysis
Majority-owned non-bank affiliates data: 1987 - 2008. Majority-owned bank and non-bank affiliates: 2009 - 2011.

SALES OF EUROPEAN AFFILIATES IN THE U.S. VS. U.S. IMPORTS TO EUROPE



*Estimate for sales
Source: Bureau of Economic Analysis
Majority-owned non-bank affiliates: 1987 - 2006. Majority-owned bank and non-bank affiliates: 2007 - 2011.

EUROPEAN UNION FOREIGN DIRECT INVESTMENT OUTFLOWS, U.S. VS. CHINA - (BILLIONS OF EUROS)



Source: Eurostat.
Data as of December 19, 2012.

THE U.S. - EUROPEAN EMPLOYMENT BALANCE
THOUSANDS OF EMPLOYEES, 2011[1]

Country	European Affiliates of U.S. Companies	U.S. Affiliates of European Companies	Employment Balance
Austria	40.8	13.3	-27.5
Belgium	131.1	154.8	+23.7
Denmark	33.9	23.5	-10.4
Finland	19.5	27.0	+7.5
France	510.2	489.0	-21.2
Germany	586.0	589.5	+3.5
Ireland	100.5	133.4	+32.9
Italy	216.9	83.1	-133.8
Luxembourg	15.6	33.5	+17.9
Netherlands	215.4	350.1	+134.7
Norway	39.4	6.8	-32.6
Spain	170.6	75.9	-94.7
Switzerland	90.5	416.4	+325.9
United Kingdom	1,209.3	910.0	-299.3
Europe	4,087.6	3,524.5	-563.1

Note: Employment balance "+" favors the United States
Source: Bureau of Economic Analysis
1. Estimates
Majority-owned bank and non-bank affiliates

THE POWER BROKERS OF THE GLOBAL ECONOMY COMPARED

	Eurmerica	Asia	Chindia	Chinmerica
GDP, PPP	40.0%	35.9%	19.9%	33.4%
GDP, Nominal	48.4%	30.2%	13.1%	32.0%
Market cap. (as of 1/8/2012)	$28.8 trillion	$17.1 trillion	$4.3 trillion	$20.2 trillion
Personal consumption exp.	53.2%	25.6%	8.9%	32.8%
M+A Sales	63.6%	18.4%	4.5%	27.6%
M+A Purchases	50.5%	29.4%	7.7%	31.3%
Inward FDI stock	56.7%	23.4%	4.5%	20.7%
Outward FDI stock	70.6%	18.6%	2.3%	23.0%
Inflows (2000-2011)	54.9%	23.8%	7.9%	21.4%
Outflows (2000-2011)	71.0%	17.5%	2.9%	20.6%
Exports* (Goods)	24.8%	42.1%	16.5%	25.2%
Imports* (Goods)	31.1%	40.4%	15.7%	28.4%
Military Spending	$993.3	$327.6	$173.6	$818.9
(U.S. $ billions at constant 2010 prices)	61.1%	20.2%	10.7%	50.4%

** Total does not include Intra-EU27 + Norway, Switzerland, & Iceland trade*

Sources: IMF, Bloomberg, UN, SIPRI
All data for 2011 otherwise noted

THE

TRANSATLANTIC ECONOMY 2013

Annual Survey of Jobs, Trade and Investment between the United States and Europe

DANIEL S. HAMILTON AND JOSEPH P. QUINLAN

Center for Transatlantic Relations
American Consortium on EU Studies
EU Center of Excellence Washington, DC
The Paul H. Nitze School of Advanced International Studies
The Johns Hopkins University
1717 Massachusetts Ave., NW, Suite 525
Washington, DC 20036
Tel: (202) 663-5880
Fax: (202) 663-5879
Email: transatlantic@jhu.edu
http://transatlantic.sais-jhu.edu