


# The Transatlantic Economy 2017

A stylized map of Europe is centered on the slide. The map is filled with the colors of the European Union flag (blue with yellow stars) and the United States flag (red and white stripes, blue field with white stars). The map is slightly tilted and has a soft, glowing effect.

**Lecture at the Vienna Institute for International Economic Studies  
(wiiw)  
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Daniel S. Hamilton and Joseph P. Quinlan  
Center for Transatlantic Relations, Johns Hopkins University SAIS

# The State of the Transatlantic Economy:

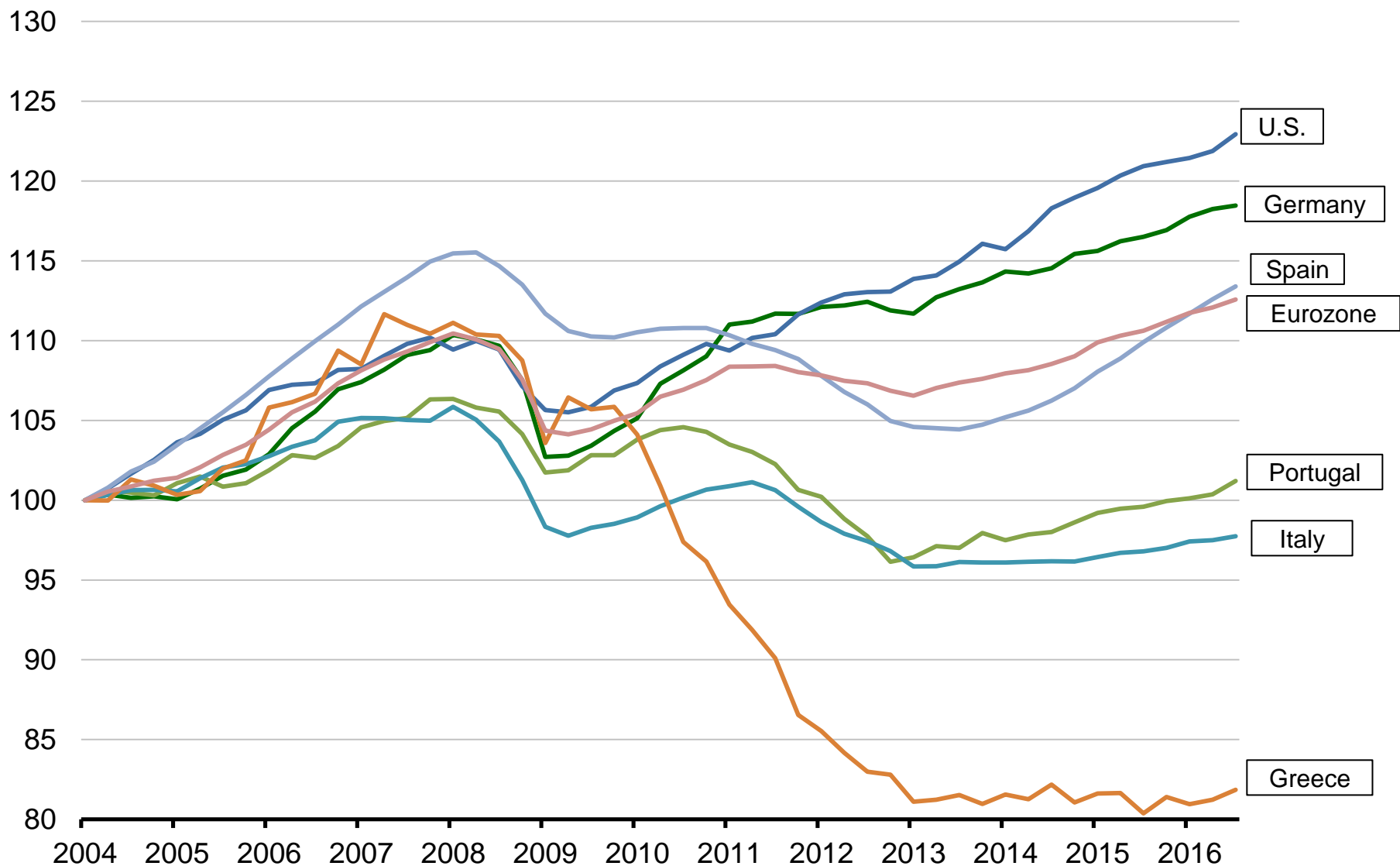
- Despite turbulence, US/Europe each other's most important markets. No other commercial artery in the world is as integrated.
- Transatlantic gaps in growth, job creation and trade all narrowed in 2016.
- **The transatlantic economy generates \$5.5 trillion in total commercial sales a year and employs up to 15 million workers** in mutually “onshored” jobs on both sides of the Atlantic.
  - Largest and wealthiest market in the world
  - 1/3 world GDP in terms of purchasing power
  - 66% of outward stock and 57% of inward stock of global FDI
- Key risks:
  - Sharp Turn in U.S. trade policy/ efforts at EU deconstruction or disaggregation
  - Populist victories in European elections
  - Mismanaged Brexit
  - Refugee crisis
  - Terrorism and security fears – Ukraine/Russia
  - Continued sovereign debt issues

# The Transatlantic Triangle – US, UK, EU

- In 2015 the U.S. exported \$123.5 billion in goods and services to the UK, and imported \$111.5 billion worth of British goods and services. US is Britain's largest export destination after the EU.
- **Real driver of the British-American economy is investment.** 2015, U.S. FDI in UK record \$593.0 billion/UK FDI in US \$483.8 billion. Sales of US/UK affiliates > \$1.3 trillion.
- The UK accounted for 22% of overall global U.S. assets outside the United States.
- **U.S. affiliates employ almost 1.4 million workers in the UK while UK affiliates employ roughly 1.1 million Americans.**
- **British firms #1 source of onshored jobs in 25 of the 50 U.S. states in 2014.**
- US capital stock in UK (\$593 billion) 2x combined U.S. investment in South America, Middle East and Africa (\$244 billion). Total U.S. investment stock in China 13% of that in UK.
- **Many U.S. companies invest in the UK, however, to gain access to the much bigger EU Single Market. *U.S. affiliates based in the UK export more to the rest of Europe than U.S. affiliates based in China export to the rest of the world.***
- **EU is UK's most important market.** UK exports almost half of its goods and services to the EU — *twice* as much as to the US.
- **Vital that all three legs of the transatlantic stool remain strong and sturdy.**

**Table 1. Developed Economies Back Above Pre-Recession Output Levels**

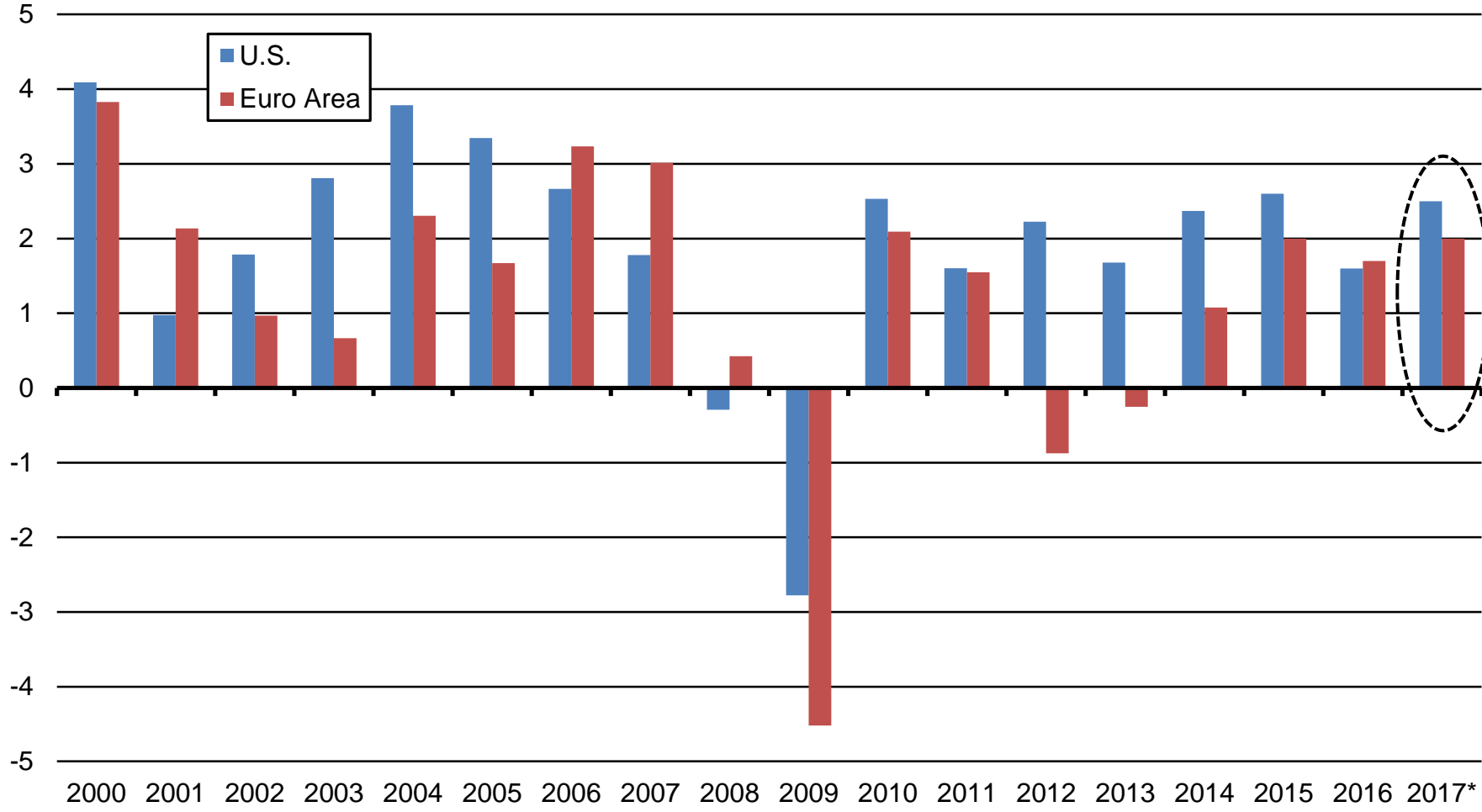
(Real GDP level, Q1 2004 = 100)



Source: Haver Analytics.

# U.S. vs. Euro Area

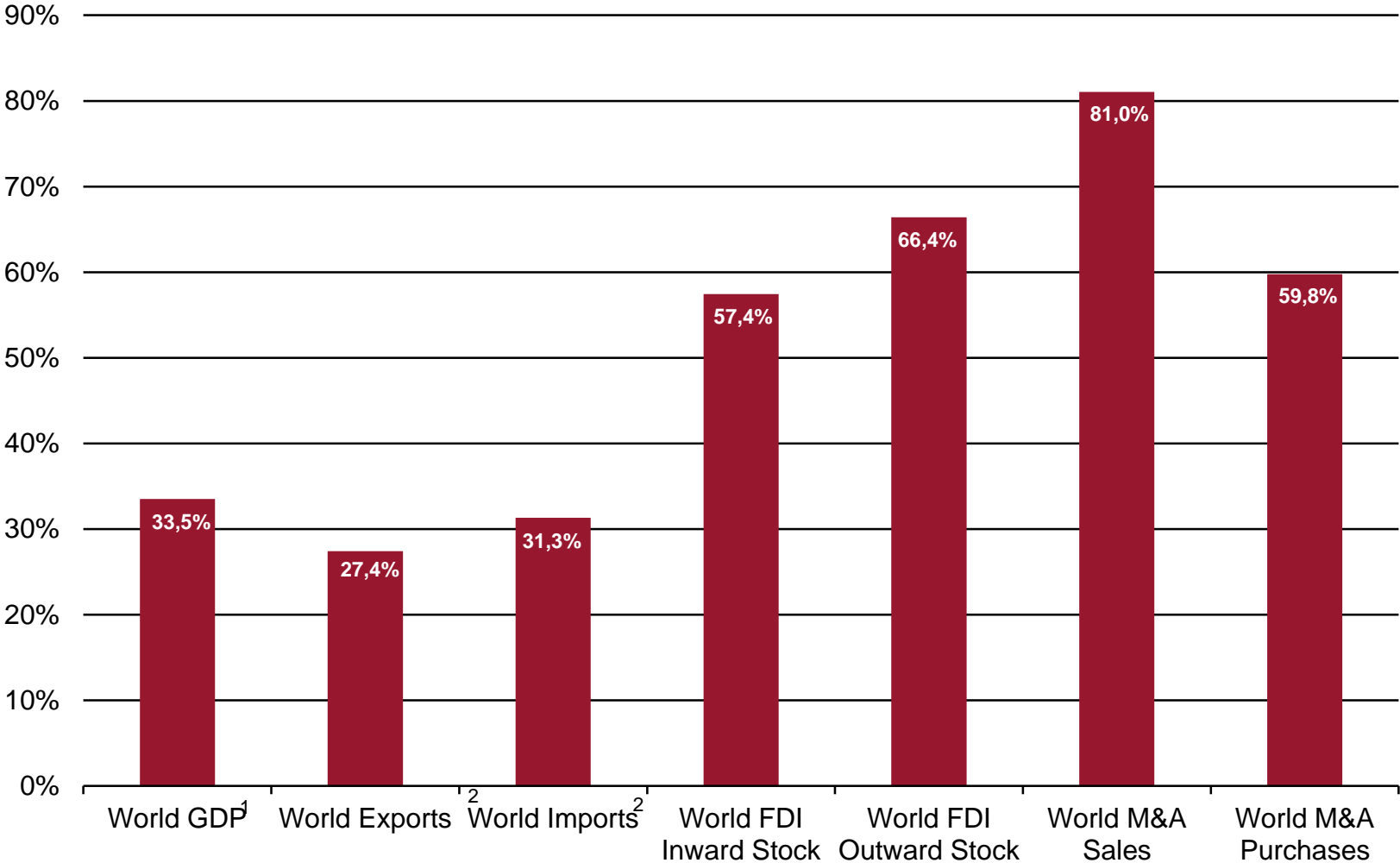
## Real GDP, Annual Percent Change



\*2017 forecast.  
Data as of February 2017.

# The Transatlantic Economy vs. The World

Share of World Total

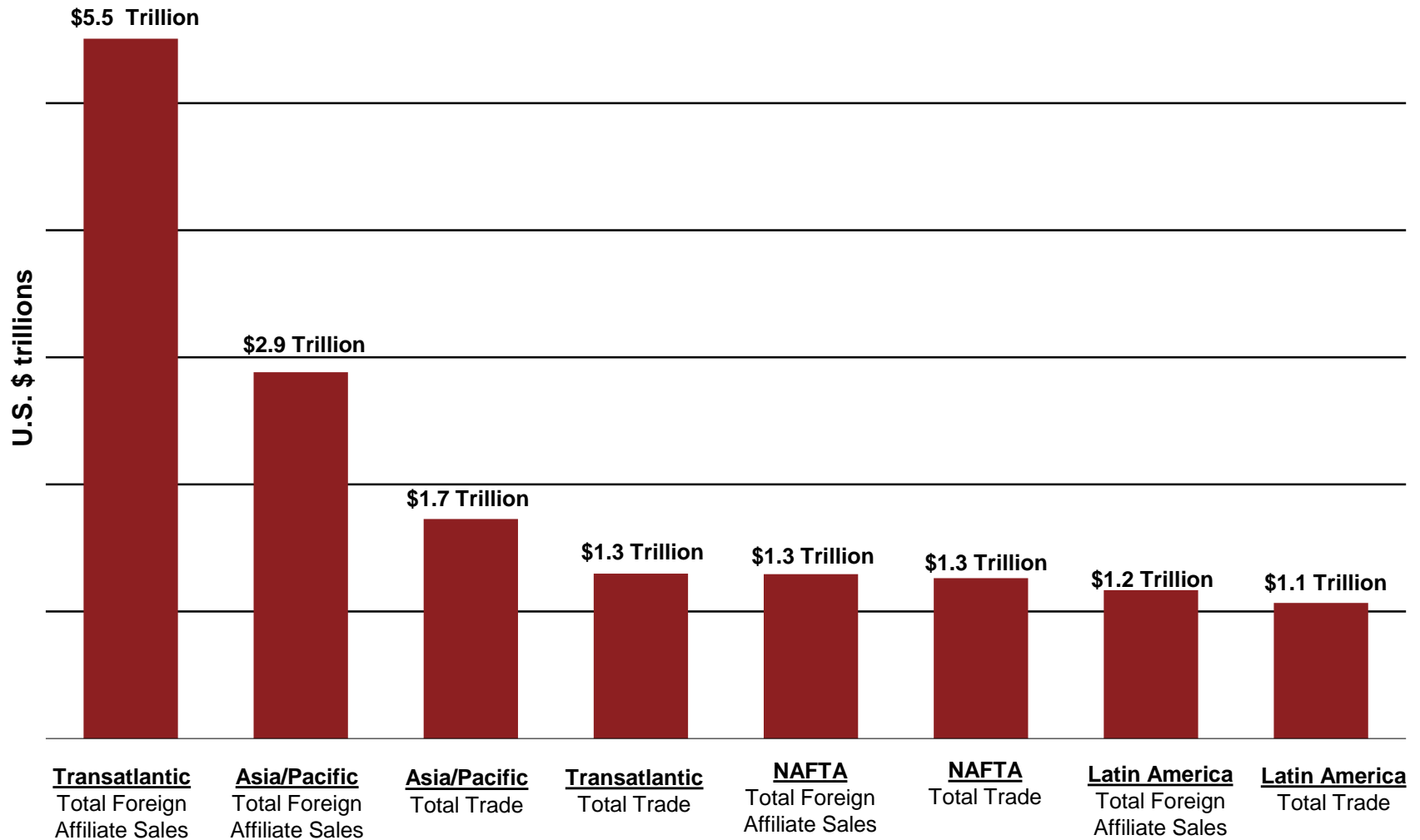


Sources: UN, IMF, figures for 2015.

1. Based on PPP estimates.

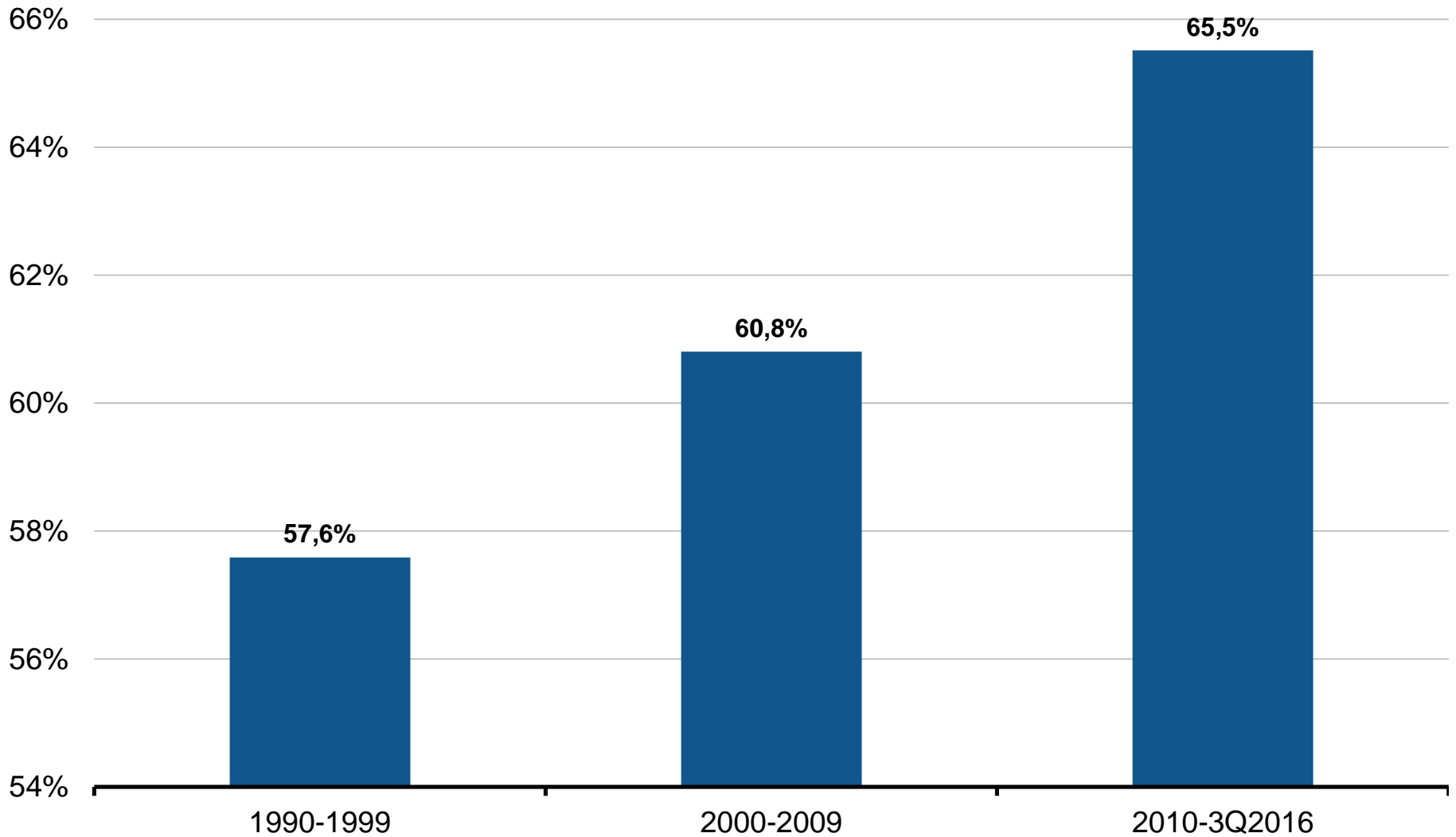
2. Excluding intra-EU, Norway, Switzerland and Iceland trade.

## America's Major Commercial Arteries



Foreign Affiliate Sales: Estimates for 2015. Total Trade: Data for goods & services, 2015.  
 Source: Bureau of Economic Analysis.

## U.S. FDI Flows to Europe (% of World Total\*)



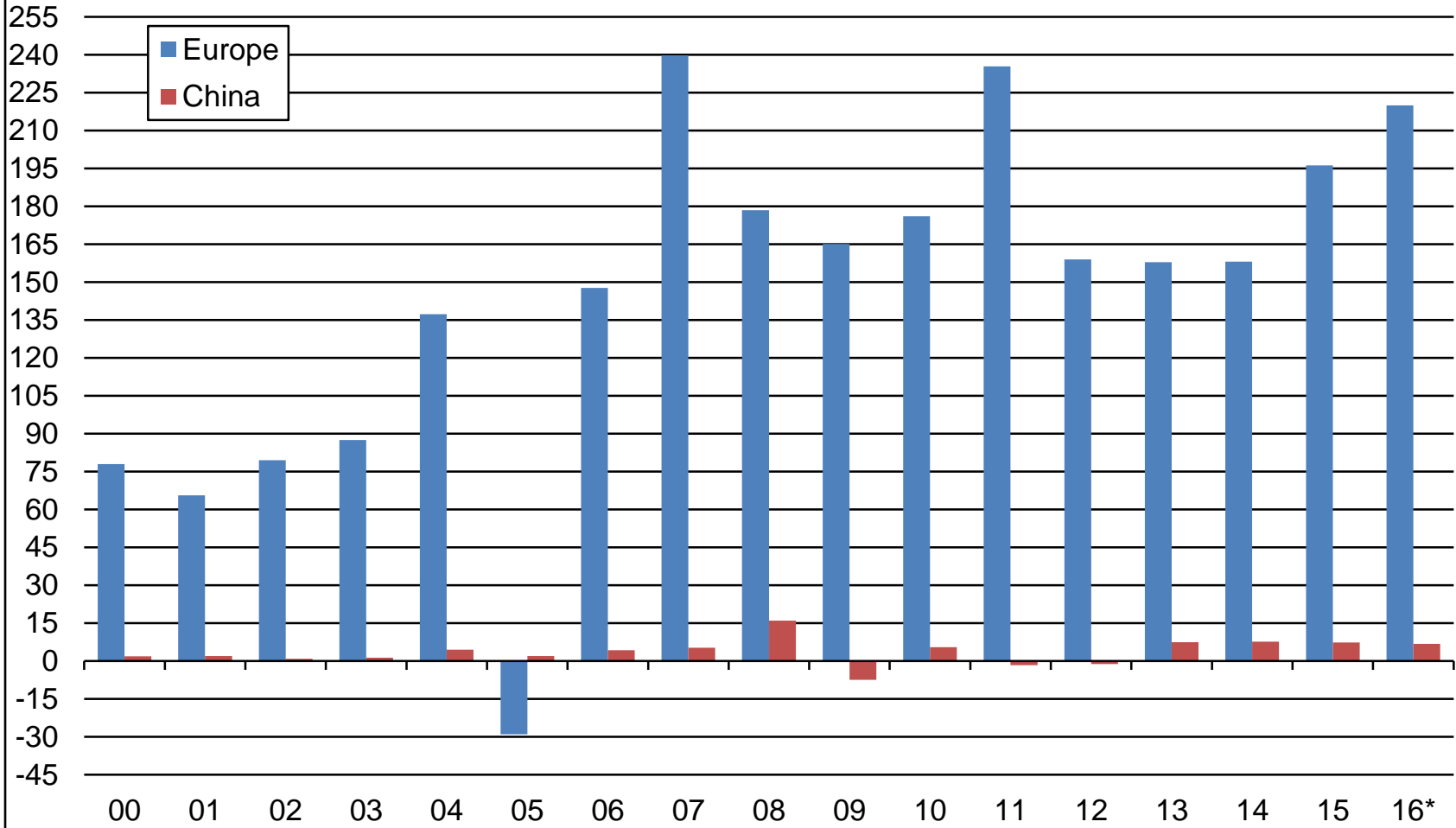
\*Excluding Caribbean and Other Western Hemisphere.

Source: Bureau of Economic Analysis.

Data as of December 2016.



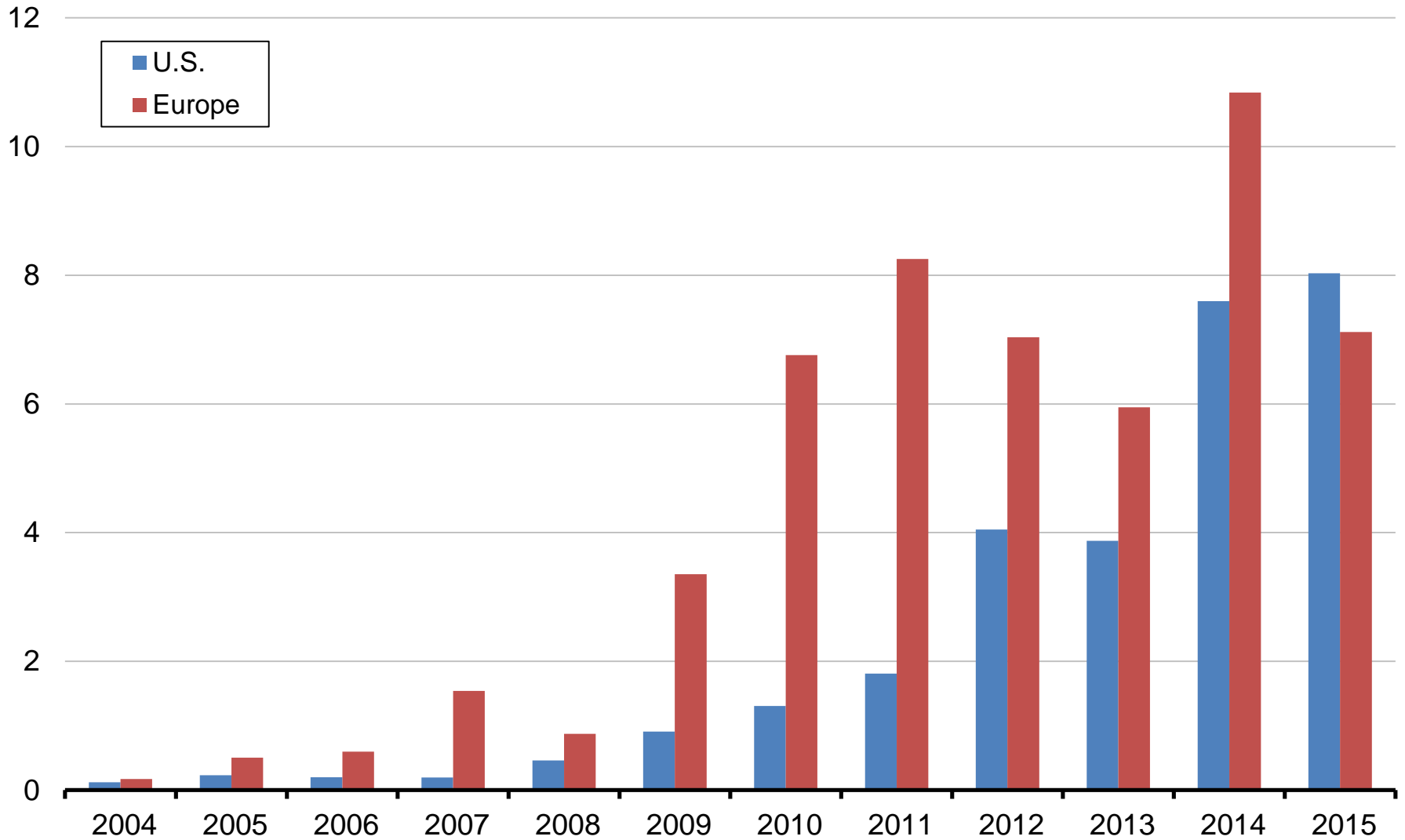
**Table 5. U.S. Foreign Direct Investment Flows to China vs. Europe**  
 Billions of \$



\*2016 estimate based on 1Q-3Q data.  
 Source: Bureau of Economic Analysis  
 Data as of December 2016.

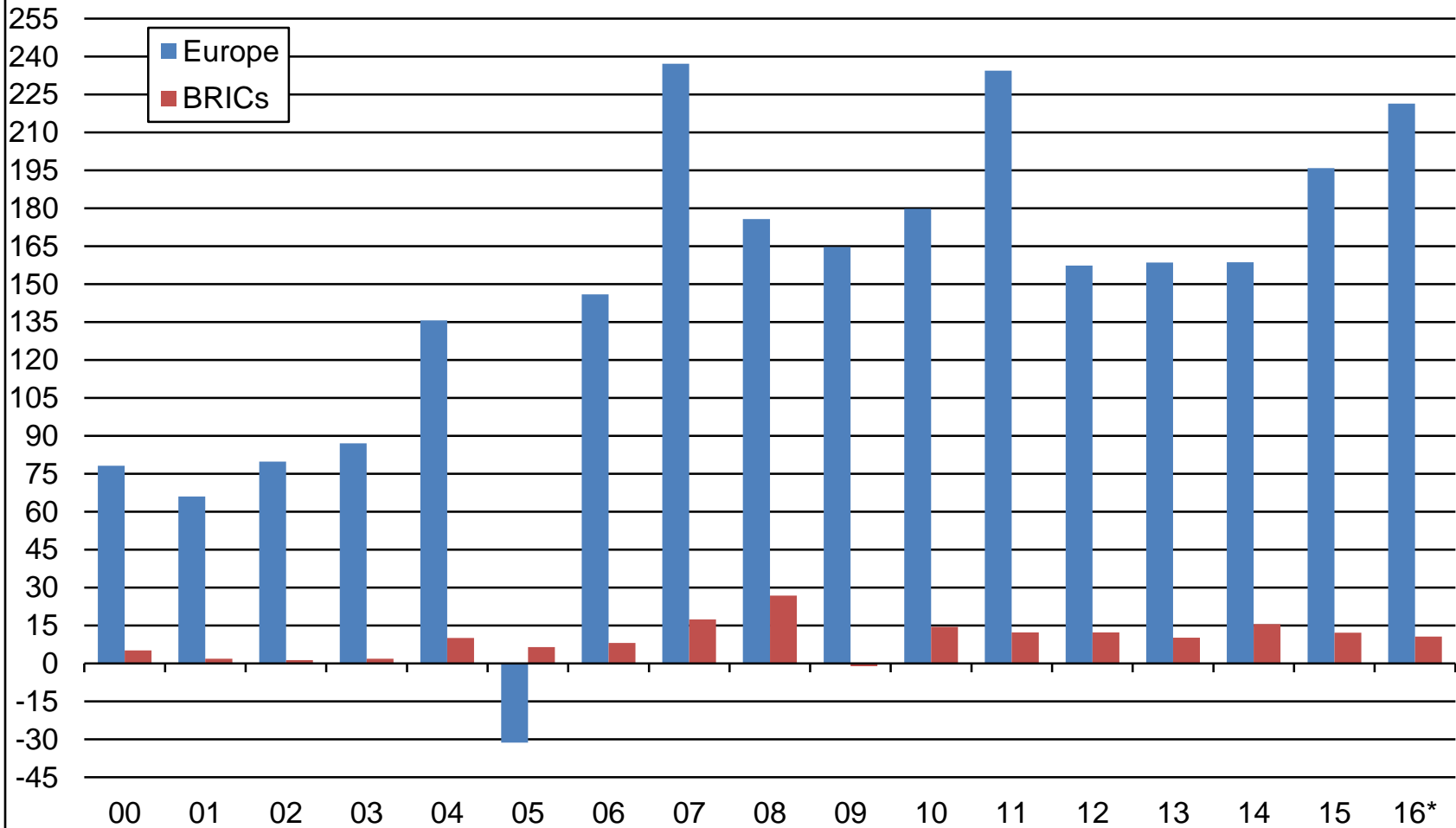
## Chinese Foreign Direct Investment Outflows - U.S. and Europe

(Billions of U.S. \$)



Source: China National Bureau of Statistics/Haver Analytics.  
Data as of January 2017.

**Table 6. U.S. Foreign Direct Investment Outflows to the BRICs vs. Europe<sup>1</sup>**  
 Billions of \$



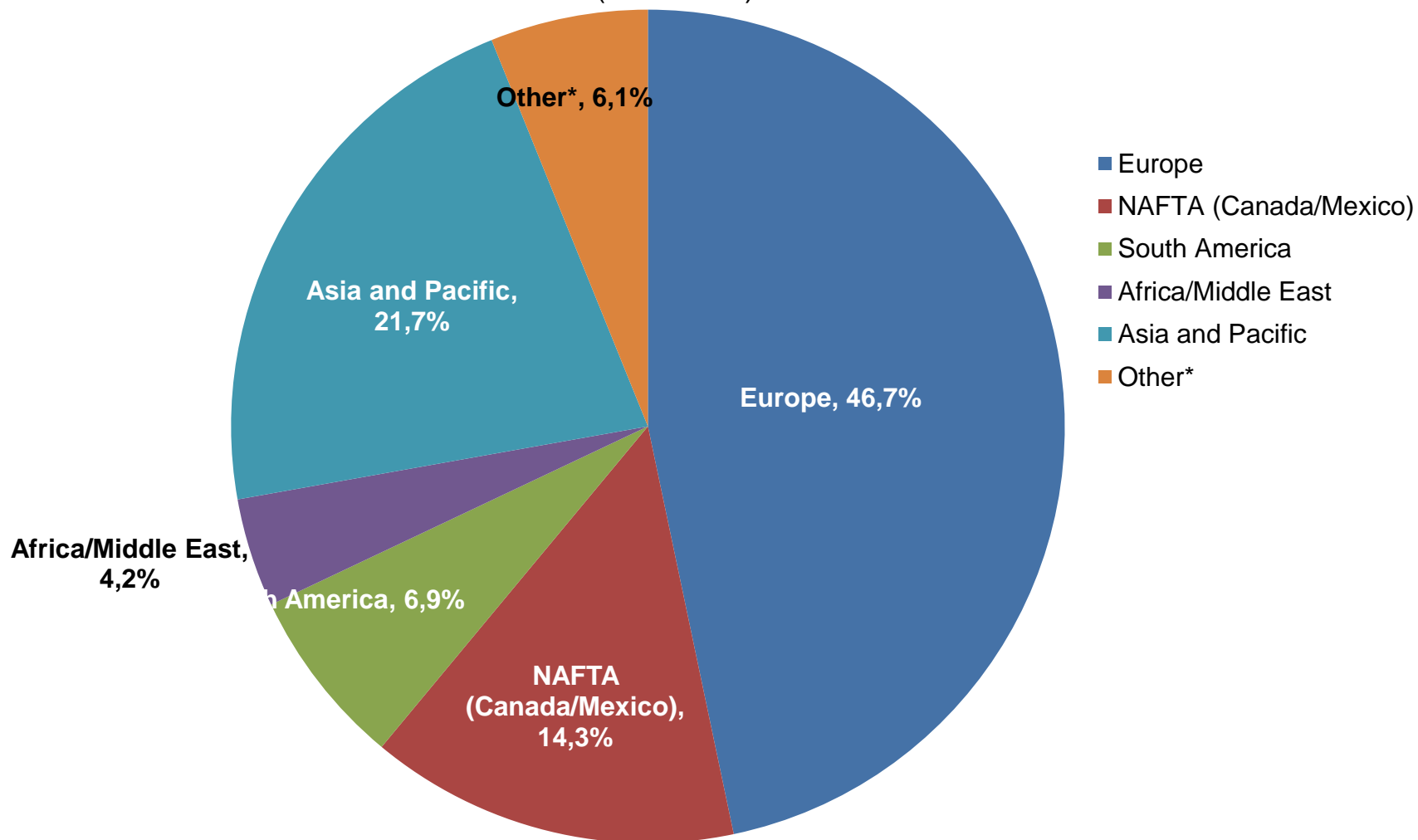
<sup>1</sup> Europe does not include flows to Russia.

\*2016 Estimate based on 1Q-3Q data.

Source: Bureau of Economic Analysis.

Data as of December 2016.

# U.S. FDI Outflows Excluding Flows to Nonbank Holding Companies, 2009-2015 (% of Total)



*\*Includes Central America (excluding Mexico) and Other Western Hemisphere.*

*Source: Bureau of Economic Analysis.*

*Data as of February 2017.*

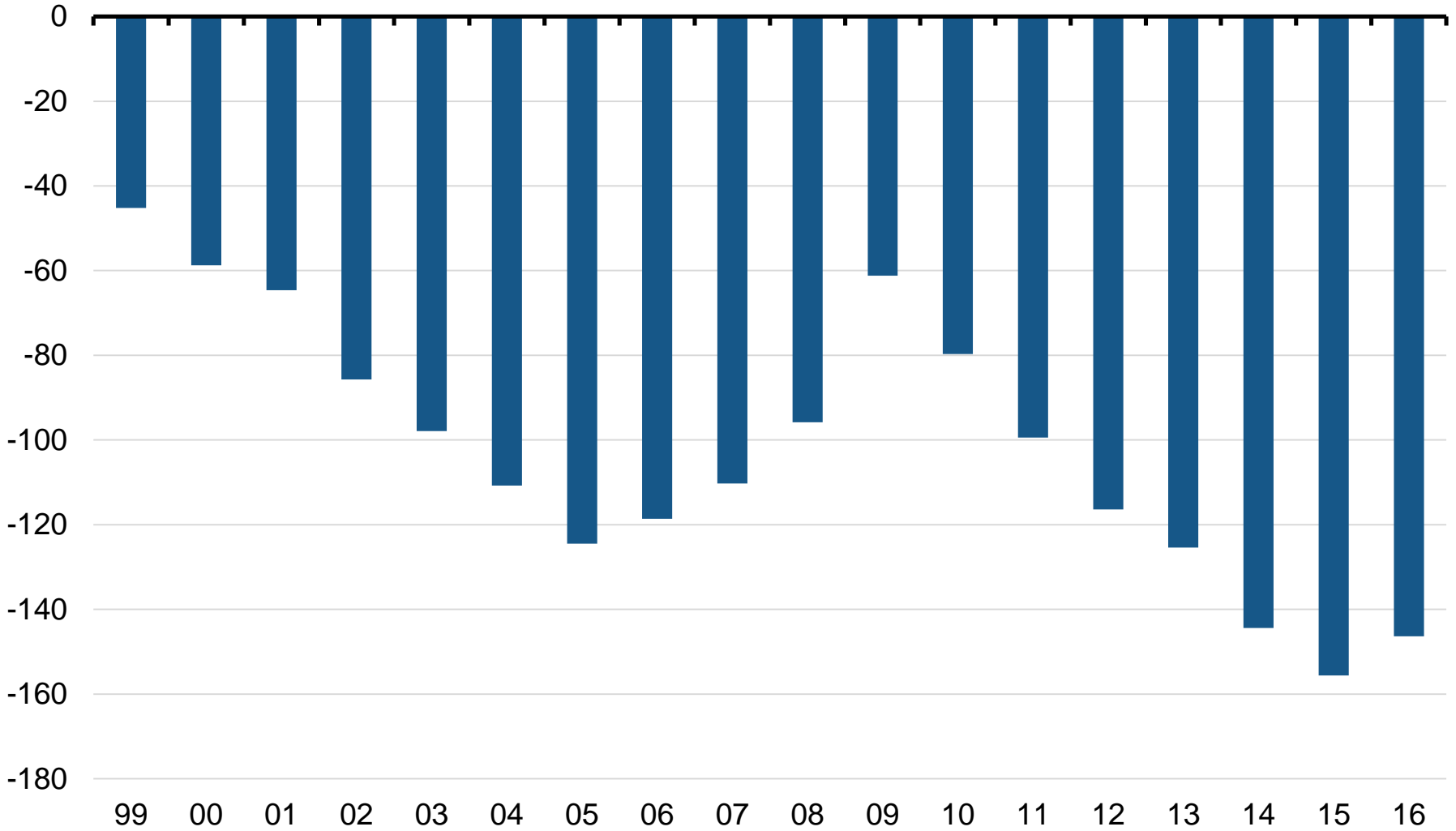
## Top 20 US States Total Goods Exports to Europe, by Value (\$Billion)

<u>U.S. State</u>	<u>2015</u>		<u>U.S. State</u>	<u>2015</u>	
California	33.1	2.4x > China	Ohio	9.5	2.4x >
Texas	31.9	2.8x > China	<b>Florida</b>	<b>9.0</b>	<b>8.0x &gt;</b>
<b>New York</b>	<b>28.2</b>	<b>7.5x &gt; China</b>	Georgia	9.0	3.4x >
Washington	14.2	1.4x < China	New Jersey	9.0	5.9x >
Illinois	12.3	2.6 > China	Kentucky	8.3	4.2x >
Louisiana	10.7	1.6 > China	North Carolina	7.0	3.3x >
Pennsylvania	10.5	5.0 > China	Michigan	6.9	2.2x >
South Carolina	9.8	2.2 > China	<b>Connecticut</b>	<b>6.3</b>	<b>6.1x &gt;</b>
Massachusetts	9.5	4.7 > China	Tennessee	6.2	2.8x >
<b>Indiana</b>	<b>9.5</b>	<b>7.5 &gt; China</b>	Virginia	5.0	3.0x >

**U.S. Total \$319.7 Billion**

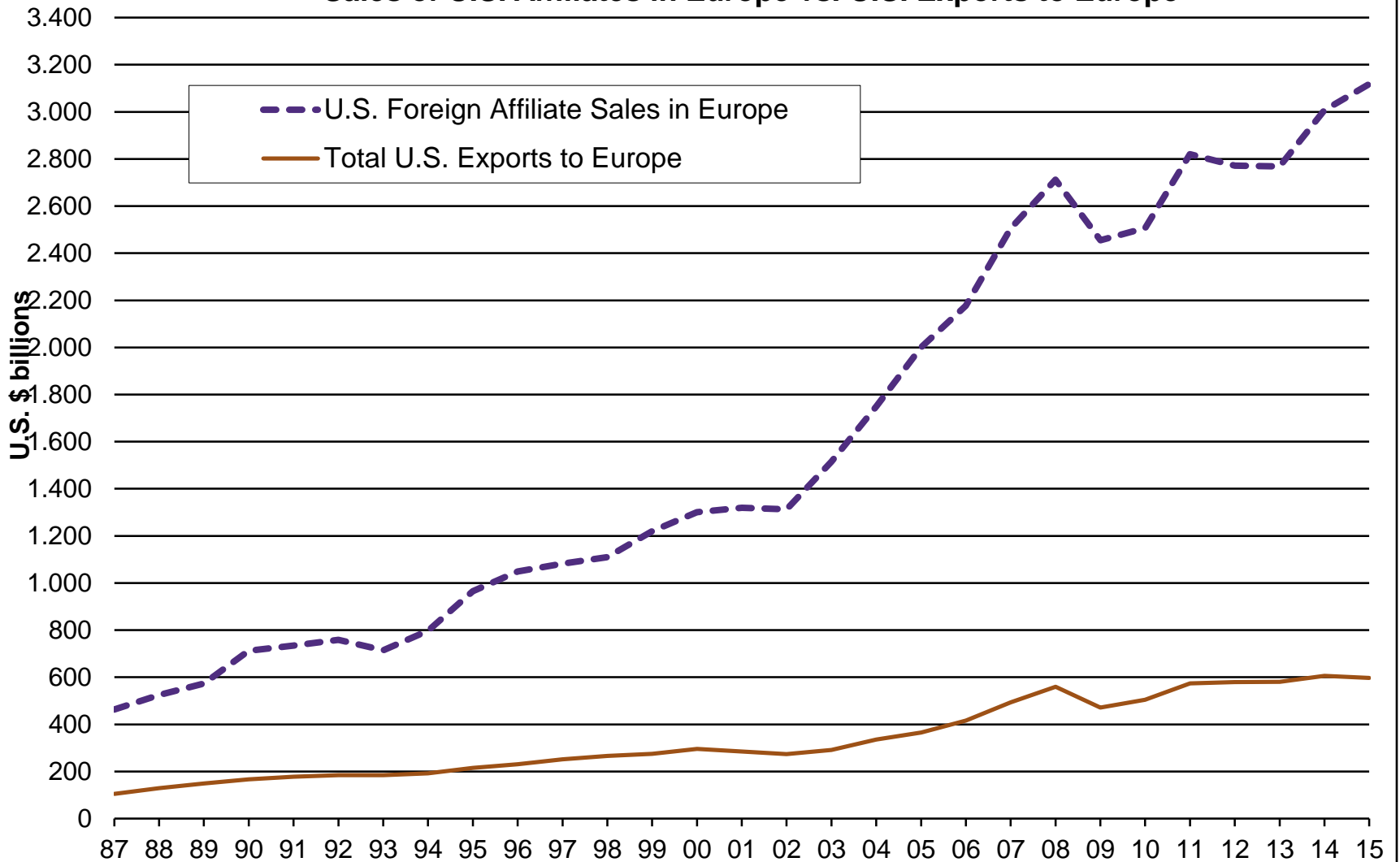
*Source: Foreign Trade Division, U.S. Census Bureau*

# U.S. Merchandise Trade Balance with the EU (Billions of \$)



Source: United States Census Bureau.

## Sales of U.S. Affiliates in Europe vs. U.S. Exports to Europe

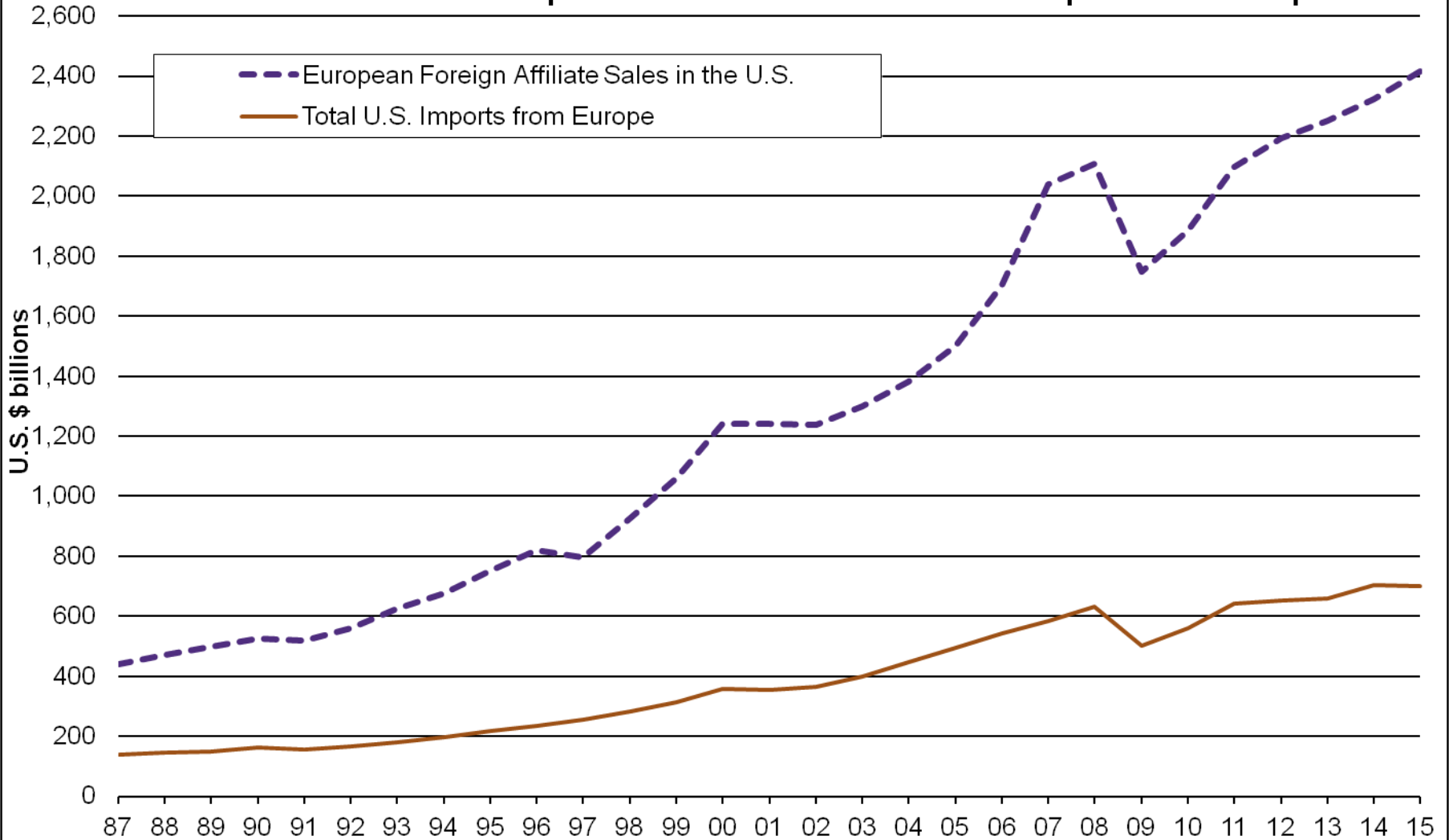


Source: Bureau of Economic Analysis.

Majority-owned non-bank affiliates data: 1987 - 2008. Majority-owned bank and non-bank affiliates: 2009 - 2015.

Foreign Affiliate Sales: Estimates for 2015.

**Table 4. Sales of European Affiliates in the U.S. vs. U.S. Imports from Europe**



Source: Bureau of Economic Analysis

Majority-owned non-bank affiliates: 1987 - 2006. Majority-owned bank and non-bank affiliates: 2007 - 2015.

Foreign Affiliate Sales: Estimates for 2015.

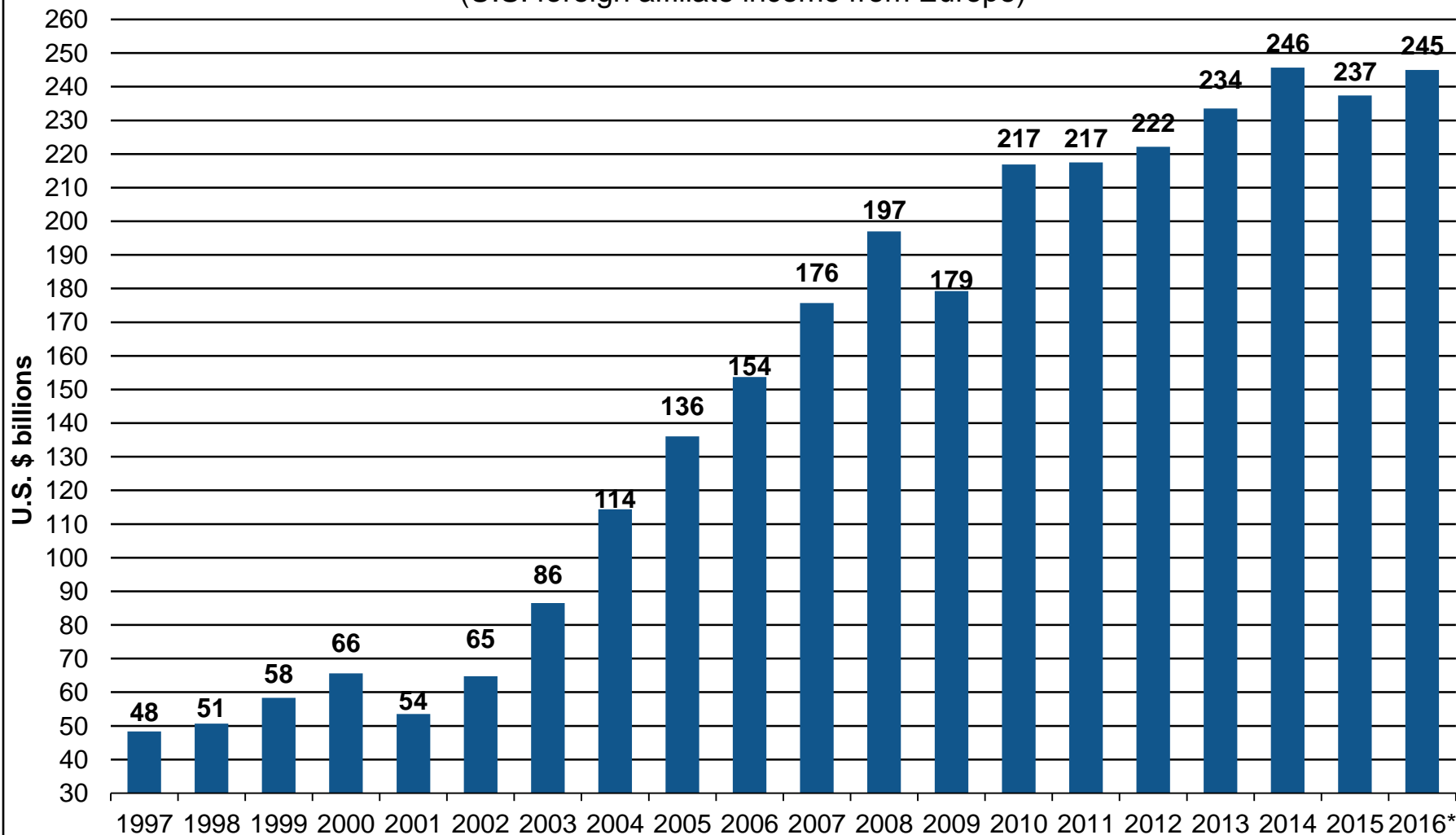


# Related Party Trade, 2014

	U.S. Imports: "Related Party Trade," as % of Total	U.S. Exports: "Related Party Trade," as % of Total
<b>European Union</b>	<b>60.0</b>	<b>32.1</b>
<b>Germany</b>	<b>69.8</b>	<b>32.5</b>
<b>France</b>	<b>45.0</b>	<b>29.7</b>
<b>Ireland</b>	<b>90.8</b>	<b>35.9</b>
<b>Netherlands</b>	<b>57.2</b>	<b>45.8</b>
<b>United Kingdom</b>	<b>50.8</b>	<b>24.2</b>

**Source: U.S. Census Bureau.**

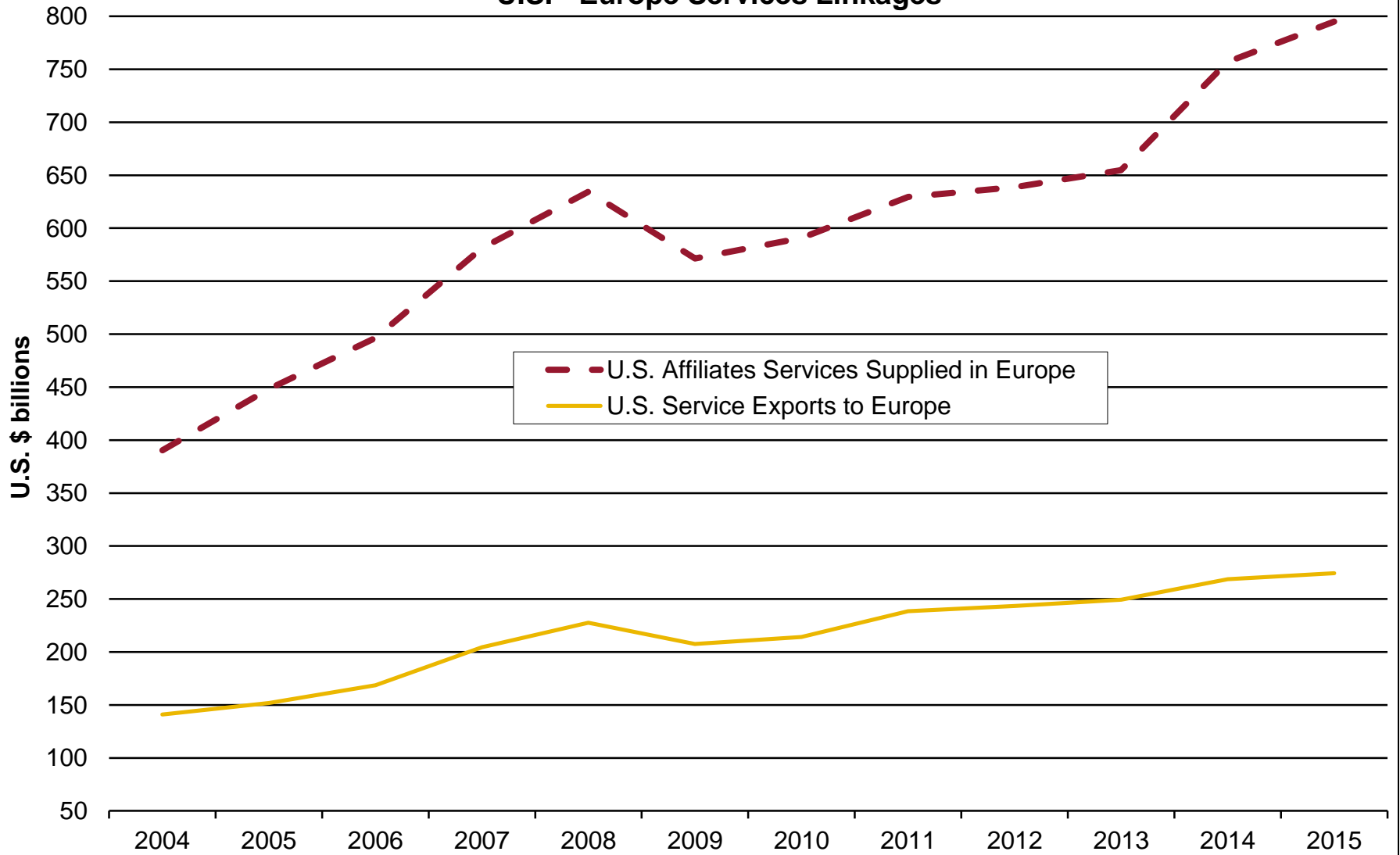
## U.S. Earnings in Europe (U.S. foreign affiliate income from Europe)



Source: Bureau of Economic Analysis

\*Data for 2016 is estimate.

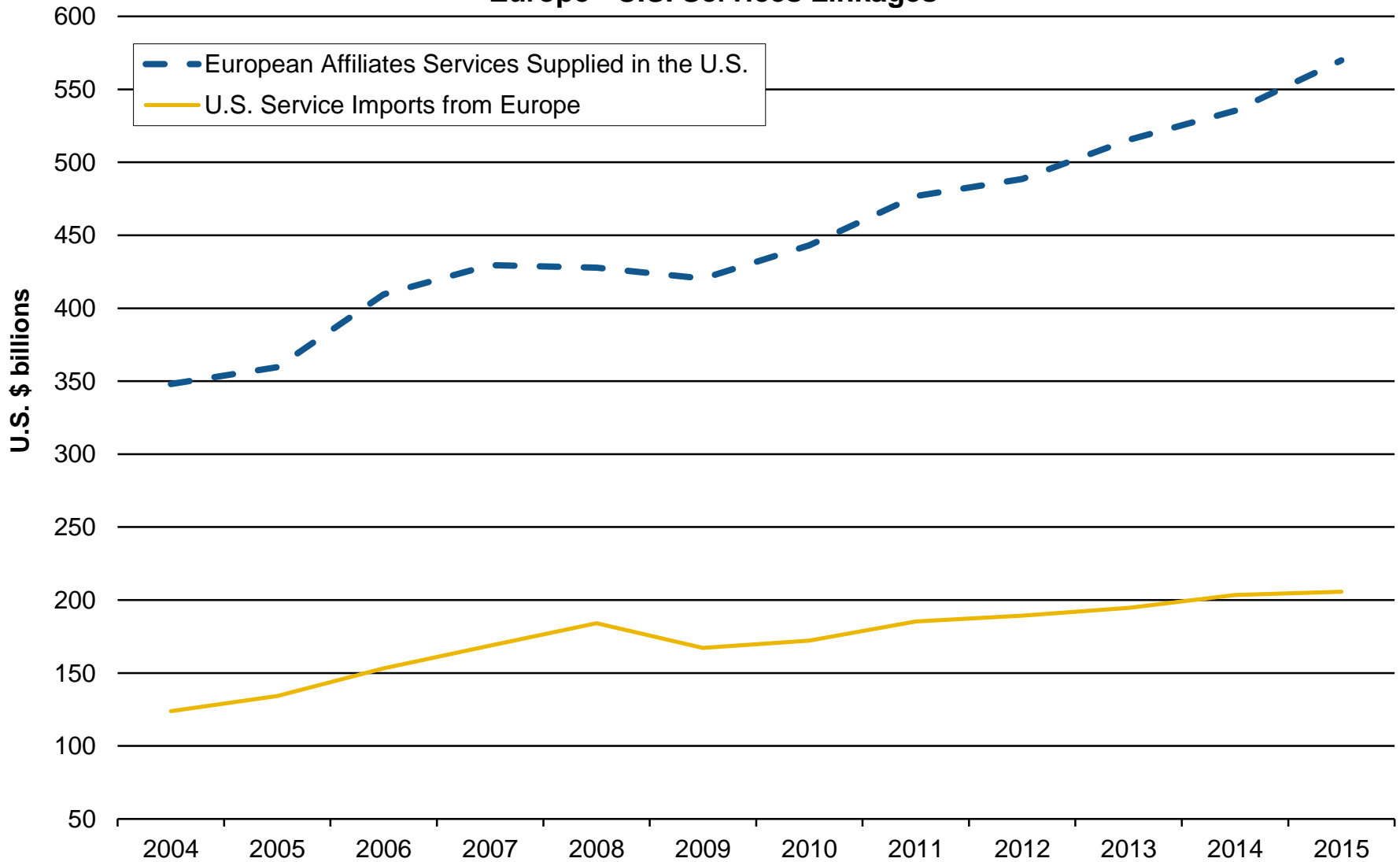
## U.S. - Europe Services Linkages



Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in Europe estimates for 2015.

## Europe - U.S. Services Linkages



Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in the U.S. estimates for 2015.

**US FDI Roots in Europe** (Billions of \$)

<b>Industry</b>	<b>US FDI to Europe</b>	<b>% of Industry Total</b>
European Total	2,949	59%
Manufacturing	310	47%

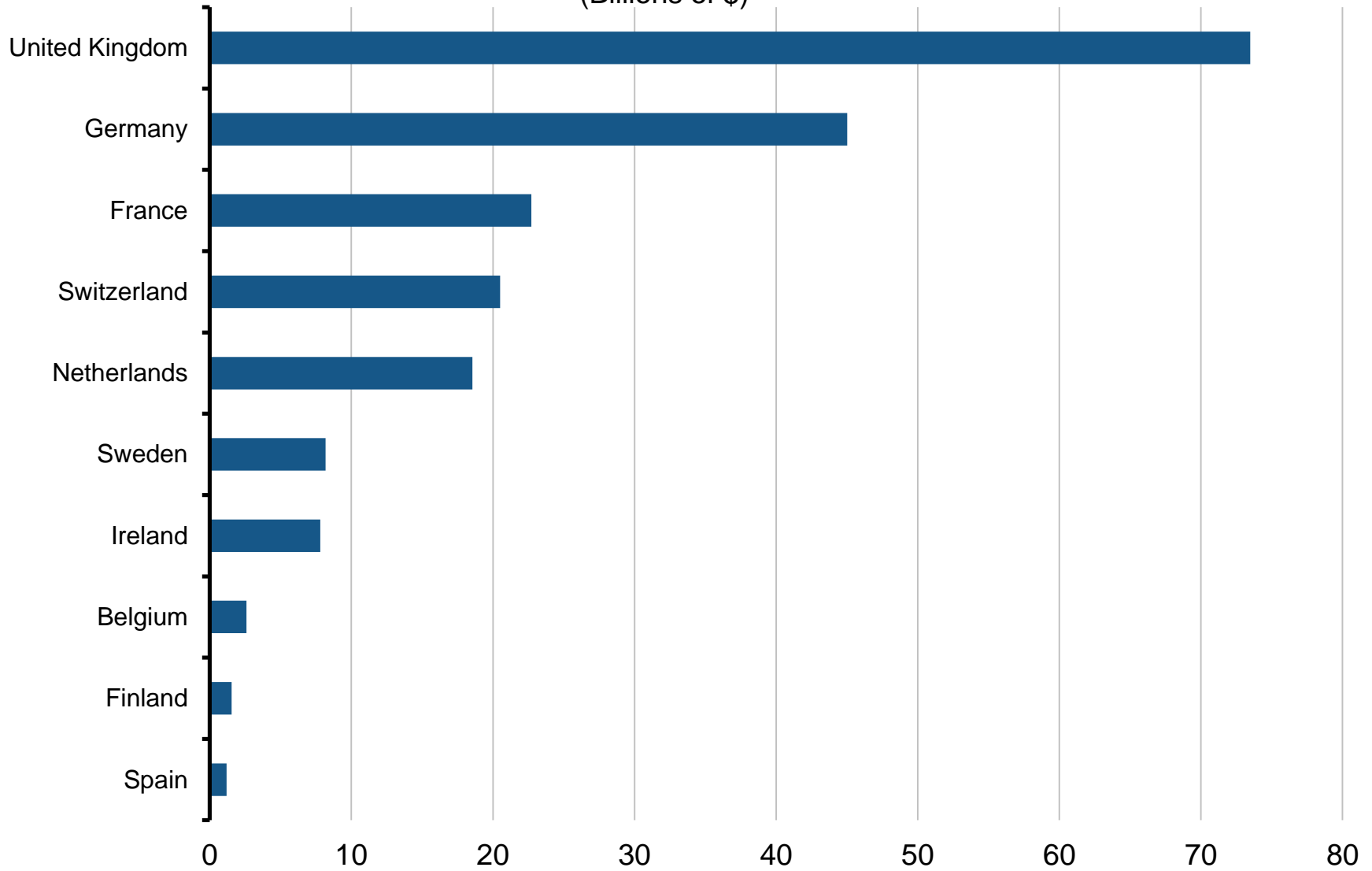
**Europe's FDI Roots in the US** (Billions of \$)

<b>Industry</b>	<b>US FDI from Europe</b>	<b>% of Industry Total</b>
Total from Europe	2,163	69%
Manufacturing	965	79%

Note: Historic-cost basis, 2015

Source: Bureau of Economic Analysis

# U.S. Exports of Goods Shipped by Affiliates of European Multinational Corporations (Billions of \$)



Source: Bureau of Economic Analysis.  
Data for 2014.

## **U.S.- Based European Affiliates Account for Over Half of all U.S. Exports of Goods Shipped by U.S.-Based Foreign Affiliates**

### **U.S. Exports of Goods Shipped by Affiliates [\$millions]**

<b>All Countries Total</b>	<b>425,205</b>
<b>Europe</b>	<b>227,799 [54%]</b>
UK	73,483 [17%]
Germany	45,014 [11%]
France	22,720 [ 5%]
Switzerland	20,510 [ 5%]
Netherlands	18,547 [ 4% ]

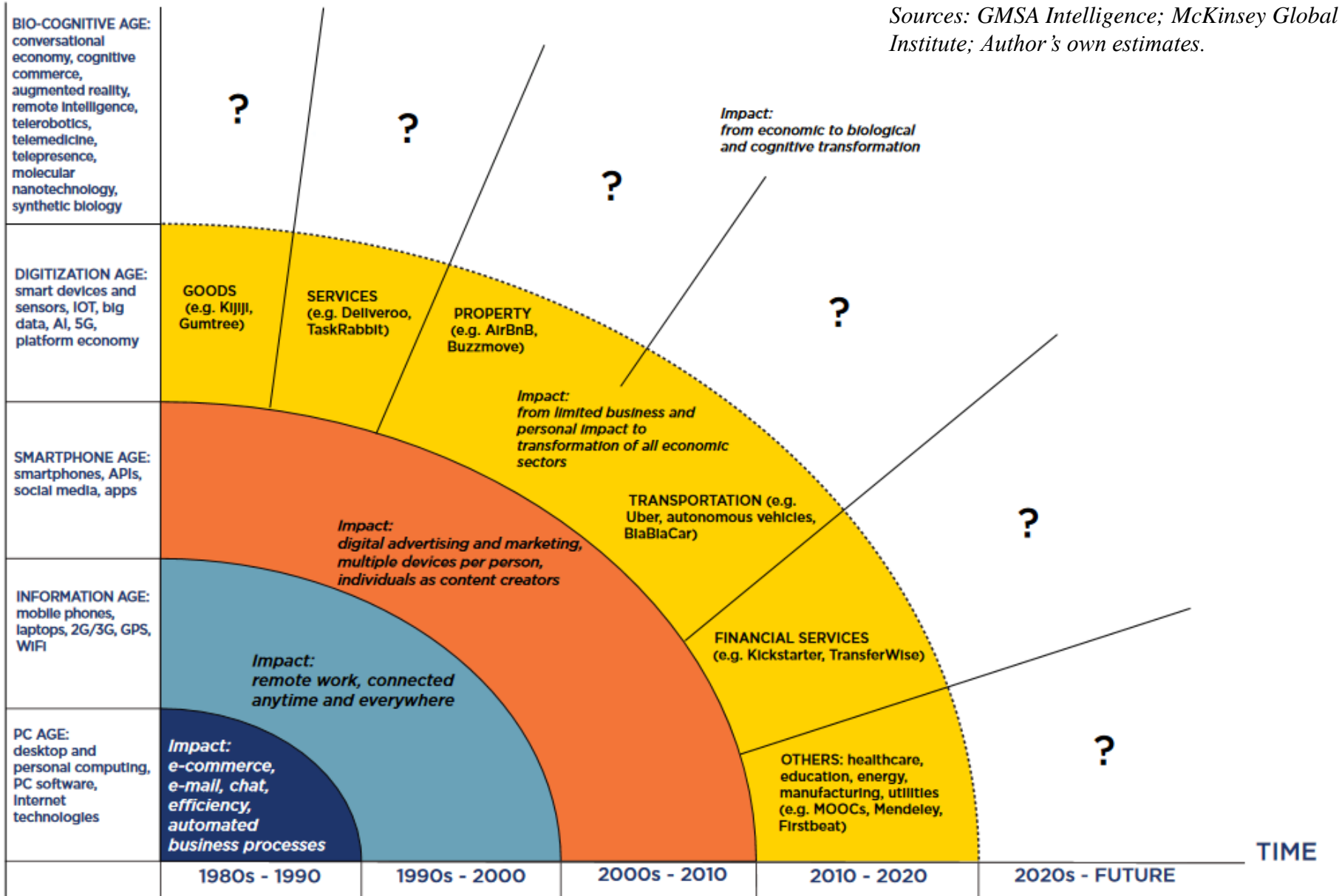
**TOP 5 Account for 42 %**

**U.S.-Based foreign affiliates account for 26% of all U.S. goods exports.  
Europe is the destination for 68% of U.S. goods exports by U.S.-based  
foreign affiliates**

Source – BEA.

# The Expanding Digital Frontier

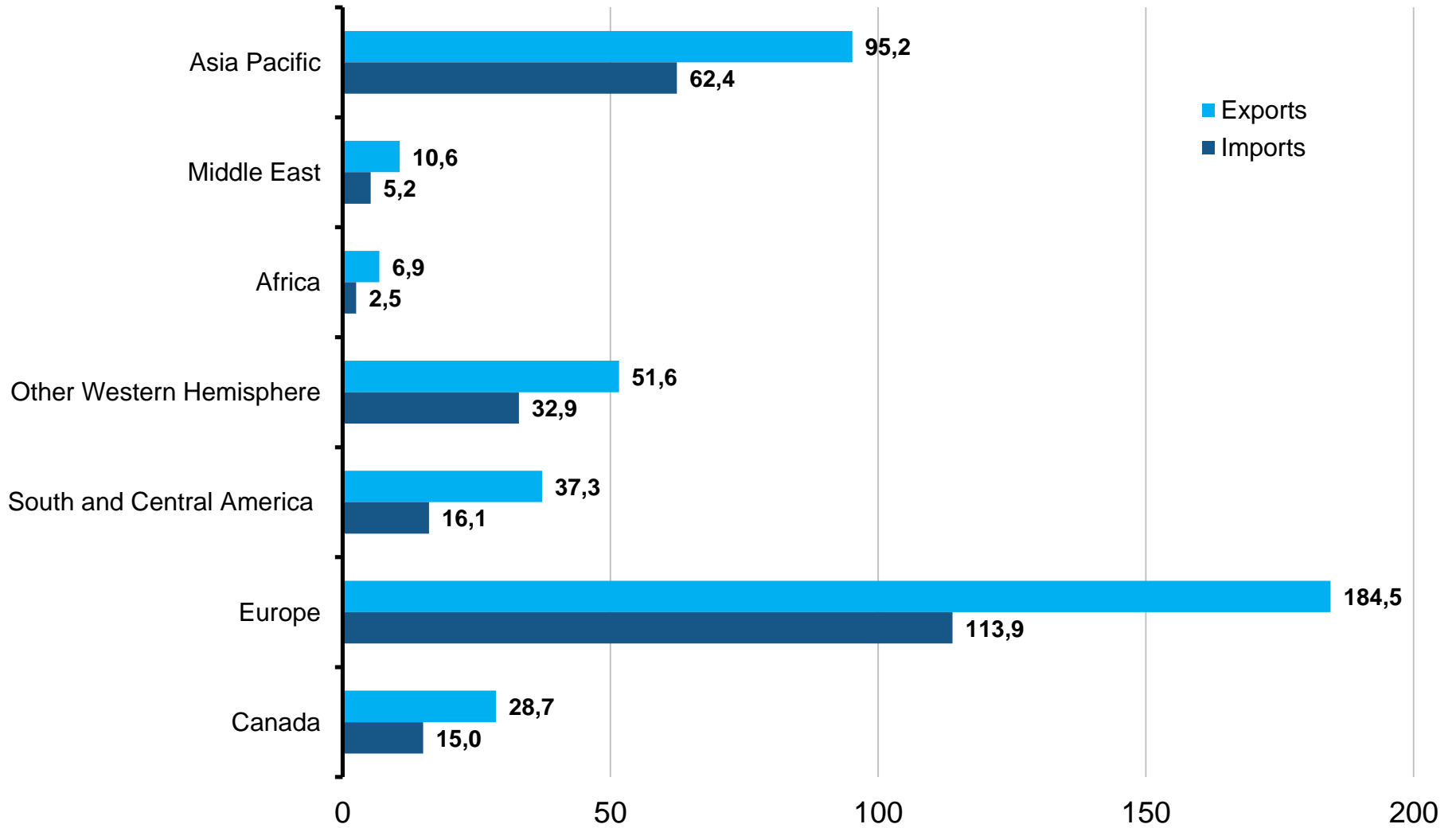
## TECHNOLOGIES





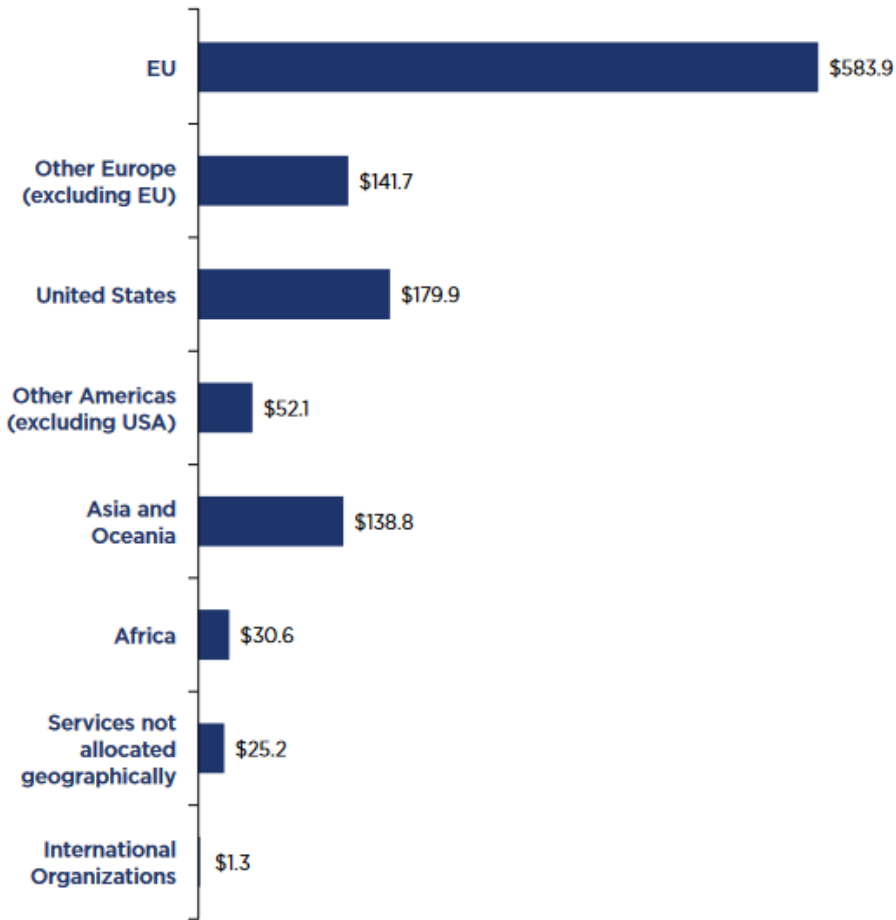
## U.S. Trade in Digitally-Enabled Services, 2015

(Billions of \$)



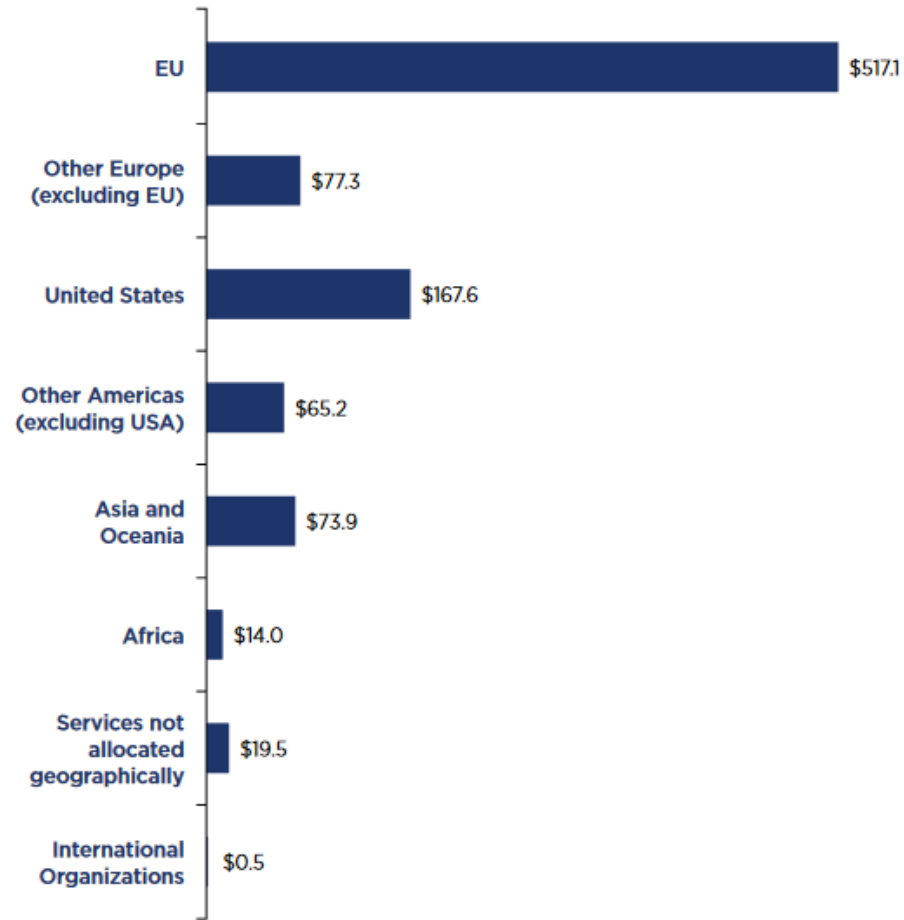
Source: Economics and Statistics Administration analysis using data from the Bureau of Economic Analysis  
Data as of September 15, 2016.

## Destination of EU Exports of Digitally-Enabled Services, 2014 (Billions of Dollars)



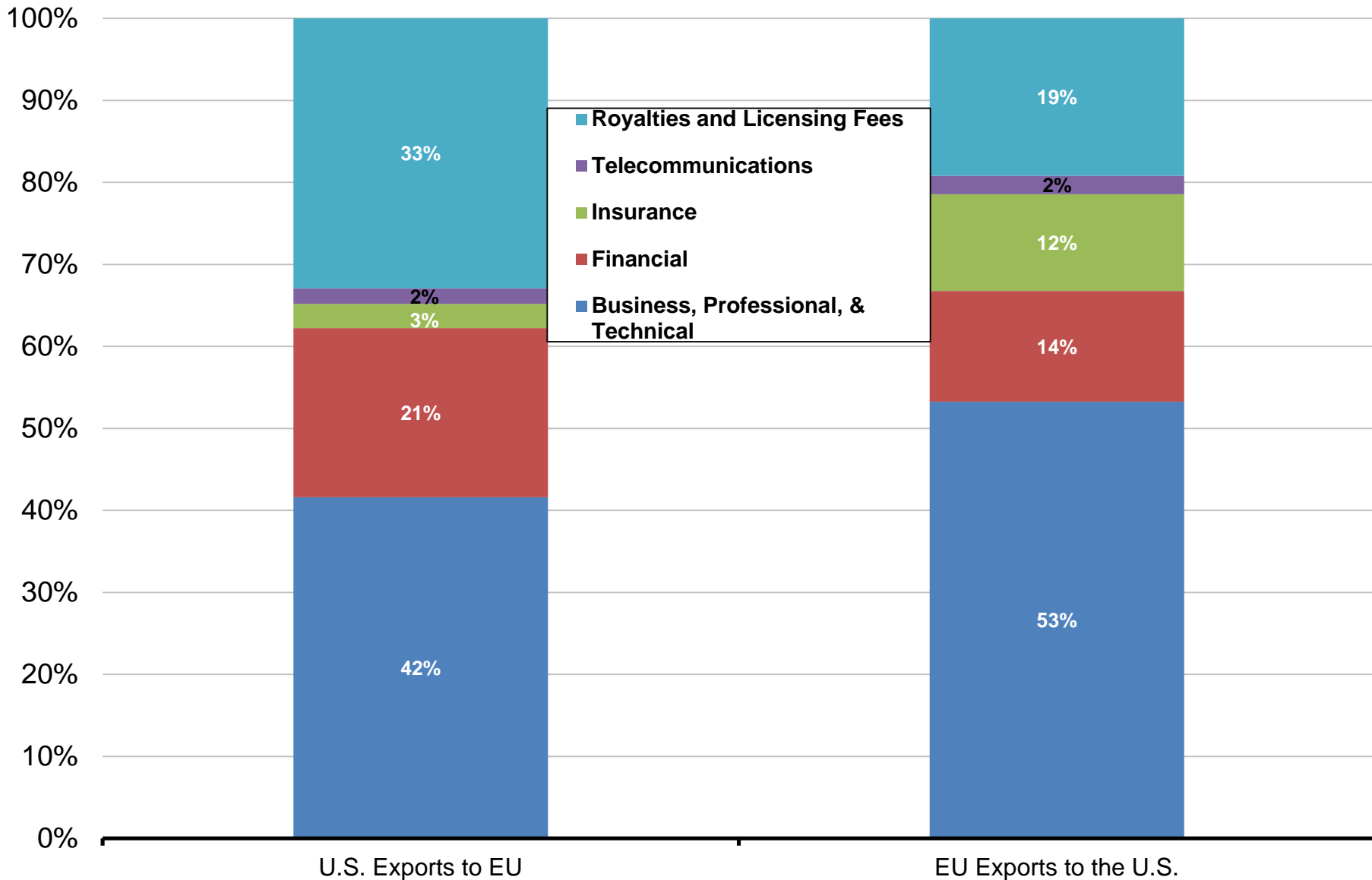
Source: U.S. Department of Commerce, Office of the Chief Economist using data from the Organization for Economic Cooperation and Development.

## Origin of EU Imports of Digitally-Enabled Services, 2014, U.S.-EU (Billions of Dollars)



Source: U.S. Department of Commerce, Office of the Chief Economist using data from the Organization for Economic Cooperation and Development.

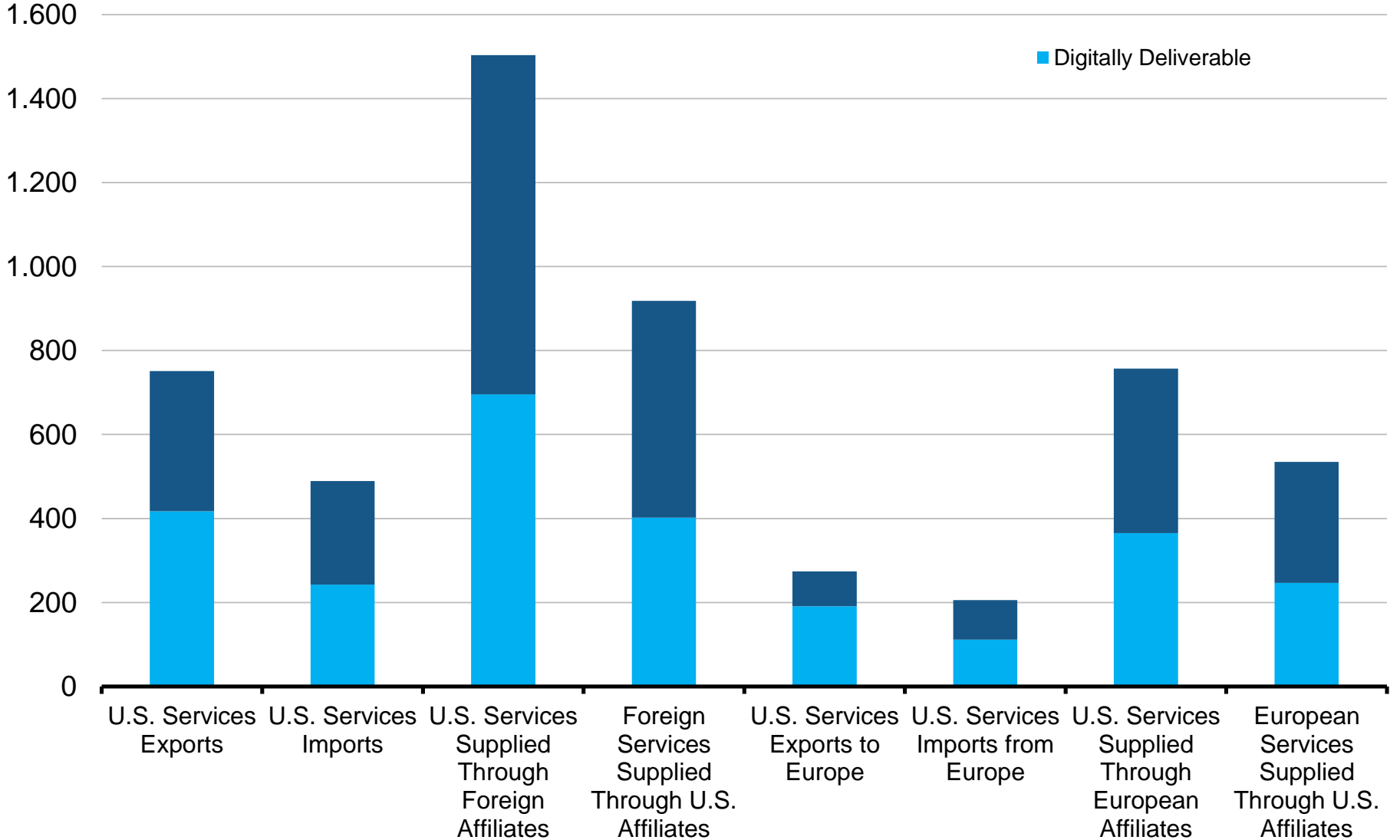
## U.S. - EU Digitally-Enabled Services Trade by Sector, 2015



Sources: U.S. Trust Market Strategy Team®; U.S. Bureau of Economic Analysis.  
Data as of December 2016.

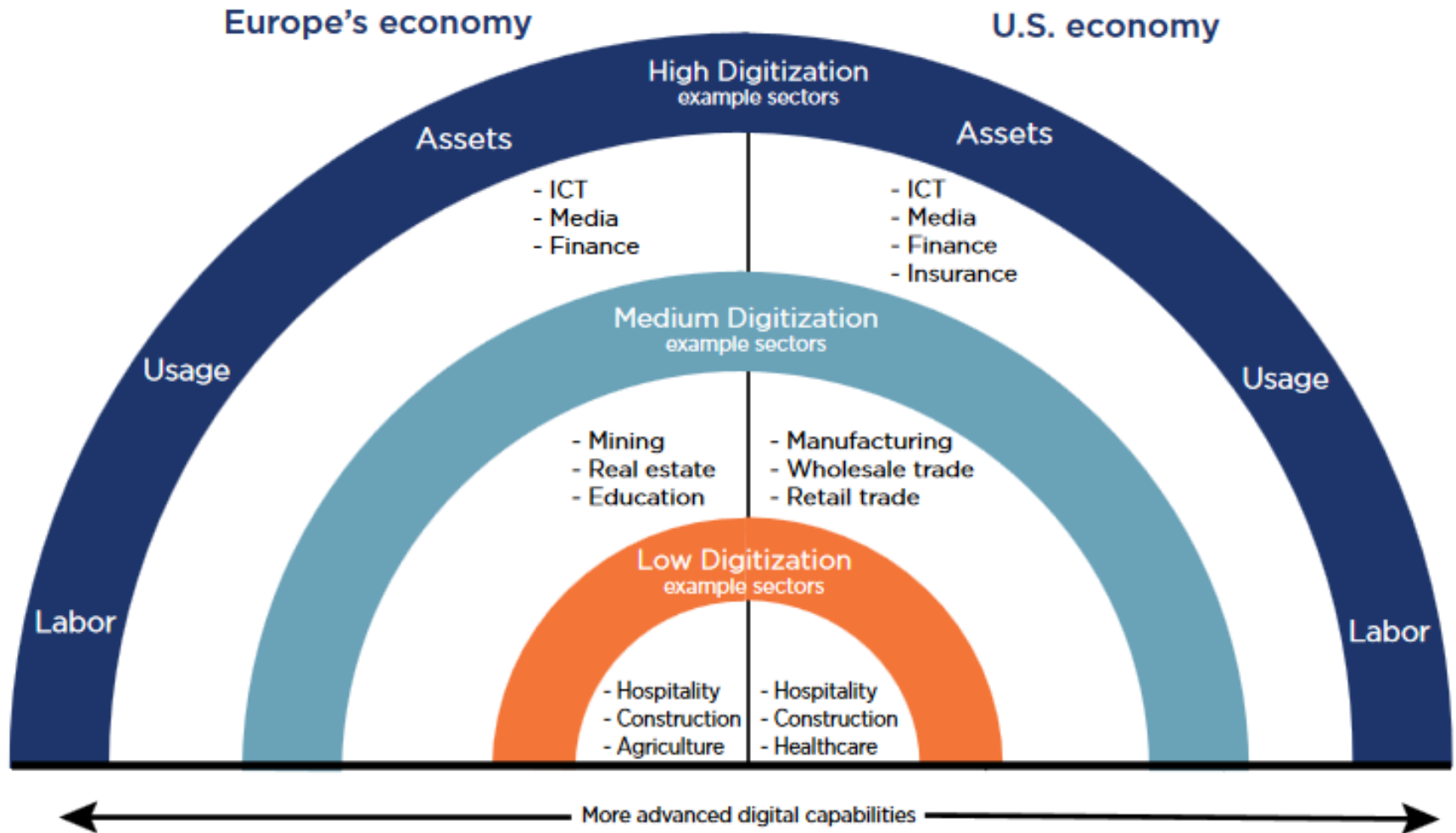
# U.S. Digitally-Enabled Services Trade and Services Supplied through Affiliates, 2015

(Billions of \$)



\*Affiliate data are for 2014, the latest available year.  
 Source: U.S. Bureau of Economic Analysis.

# Digital Leaders & Laggards in Europe & the United States



# The U.S. - European Employment Balance

Thousands of employees

Country	European Affiliates of U.S. Companies	U.S. Affiliates of European Companies	Employment Balance
Austria	46.2	17.0	-29.2
Belgium	132.1	150.2	18.1
Czech Republic	95.0	0.0	-95.0
Denmark	45.9	35.5	-10.4
Finland	19.3	24.5	5.2
France	491.8	593.8	102.0
Germany	700.8	695.9	-4.9
Greece	18.2	2.5	-15.7
Hungary	71.8	0.1	-71.7
Ireland	125.0	225.0	100.0
Italy	224.0	130.9	-93.0
Luxembourg	21.3	20.9	-0.4
Netherlands	251.9	430.5	178.5
Norway	52.7	6.8	-45.9
Poland	182.6	0.9	-181.6
Portugal	31.5	0.6	-30.8
Romania	57.4	0.0	-57.4
Spain	185.6	77.2	-108.4
Sweden	74.8	210.9	136.1
Switzerland	107.6	473.4	365.8
United Kingdom	1,396.2	1,137.4	-258.9
<b>Europe</b>	<b>4,690.9</b>	<b>4,259.6</b>	<b>-431.4</b>

Note: Employment balance "+" favors the United States

Source: Bureau of Economic Analysis

\*2015 Estimates. Majority-owned bank and non-bank affiliates.

**Ranking of Top 10 States**  
**by Jobs Supported Directly by European Investment**  
(Thousands of employees)

<b>U.S. State</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>California</b>	<b>375.0</b>	<b>383.8</b>	<b>393.8</b>
<b>Texas</b>	<b>304.1</b>	<b>319.9</b>	<b>331.2</b>
<b>New York</b>	<b>300.4</b>	<b>302.1</b>	<b>310.5</b>
<b>Pennsylvania</b>	<b>210.9</b>	<b>216.0</b>	<b>222.9</b>
<b>Illinois</b>	<b>189.8</b>	<b>194.7</b>	<b>195.1</b>
<b>New Jersey</b>	<b>166.2</b>	<b>169.3</b>	<b>174.5</b>
<b>Florida</b>	<b>166.9</b>	<b>173.5</b>	<b>174.3</b>
<b>North Carolina</b>	<b>157.5</b>	<b>166.3</b>	<b>174.1</b>
<b>Massachusetts</b>	<b>144.5</b>	<b>154.1</b>	<b>163.8</b>
<b>Ohio</b>	<b>135.7</b>	<b>144.8</b>	<b>147.6</b>

*Source: Bureau of Economic Analysis*

# 2017 – The Agenda is Damage Limitation

- Buy American, Hire American
- Border Adjustment Tax
- Focus on Trade Deficits
- Tweet – for – Tweet Temptations
- Weak Spots in Europe – Greece, Italy, Portugal
- Privacy Shield
- European Election Wild Cards
- China Market Economy Status





# Why TTIP Matters

- **Reduce Tariff Barriers**
- **Reduce Barriers to Services [Jobs!]**
- **Facilitate Investment Flows – the Lifeblood of the Transatlantic Economy**
- **Reduce Regulatory Friction**
- **Reposition Europe/U.S. for New Global Economy**
- **Ensure HIGH standards**
- **Living Agreement**

# TTIP Geopolitics

- **Transatlantic – Mutual Reassurance**
  - For Europe – Credibility of US Security Commitment
  - For US – Outward-Looking Europe
  - Help Restore Luster to Tarnished Western Model
- **Rising Powers – Terms of Integration**
  - China; Wider Europe; Russia; Brazil; Poorest Countries
- **Stronger or Weaker Rules-Based Order**
  - Rule-Makers or Rule-Takers

**Window is Closing**

# Example BMW

- By 2016 \$7.3 billion investment in Spartanburg SC
- 8,000 direct jobs; 23,000 additional
- \$16.6 billion per year local economy
- 40 additional in-state suppliers; 220 nation-wide
- 70% exported to 140 countries
- BMW Number One U.S. Auto Exporter

## TTIP

- \$500 million savings by cutting 2.5% U.S. auto import tariff and 10% EU auto import tariff
- More savings re standards – EU standards front bumper lower than US
- 5-7 % cost reduction every car and truck

# **Transatlantic Digital Connections**

1. Digital Services
2. E-commerce
3. The Transatlantic Platform Economy
4. Transatlantic Data Flows
5. The Hardware of the Transatlantic Digital Economy

## **Transatlantic Digital Comparisons**

1. The ICT Sector
2. Digital Density and Investment in Intangible Assets
3. Apps, Bots and the Coming Conversational Economy
4. Crowdworkers in the Gig Economy
5. Networked Readiness