The Transatlantic Economy 2010
Executive Summary

- Despite the recession, the United States and Europe remain each other's most important foreign commercial markets. No other commercial artery in the world is as integrated and fused as the transatlantic economy. We estimate that the transatlantic economy continues to generate close to $4.28 trillion in total commercial sales a year and employs up to 14 million workers in mutually "onshored" jobs on both sides of the Atlantic.

The Rocky Road to Recovery

- The United States and most of Europe emerged from recession over the second half of 2009. The outlook is for a fragile recovery. The real estate sector remains the Achilles Heel for many nations, and the jobs outlook remains precarious.
- Public sector deficits and the ability to service these deficits remain key concerns. Greece's federal budget deficit as a percent of GDP was 12.7% in 2009; Ireland's 11.7%, Spain's was 10% the UK's 9.9% and Portugal's 9.3%. The U.S. deficit was 10% in FY 2009 and is expected to decline only modestly, to 9.2%, in FY 2010.
- The IMF expects output in the euro area to rise just 1% in 2010, as compared to a 3.9% decline in 2009. The U.S. is expected to expand by 2.7% in 2010, vs. a 2.5% drop in 2009.
- After surging over the 2002-2007 period, U.S. foreign affiliate income earned in Europe peaked in the first half of 2008 before declining sharply thereafter. U.S. affiliate income fell 25% in the first nine months of 2009 from the same period a year earlier. We estimate that affiliate income totaled $137 billion for all of 2009, down 23% from the peak in 2007.
- U.S. affiliate income in the UK was down 38% in the first nine months of 2009 versus the same period in 2008, and dropped nearly 260% in Sweden, 104% in Greece, 101% in Portugal, 60% in Spain, 50% in France, and 47% in Germany. Hungary, Austria, and Ireland were the only countries in which U.S. affiliate income rose—17%, 10%, and less than 1% respectively.
- Between 2002 and 2007, European affiliate earnings in the U.S. surged three-fold from $26.7 billion in 2002 to $72 billion in 2007. In 2008, however, most European affiliates saw their U.S. earnings decelerate sharply. The downturn was extended in 2009, with total European affiliates dropping 22% in the January-September period 2009 versus a year earlier. Affiliate earnings of French companies fell 30%, Dutch by 20% and British by 12%.
- German companies were a great exception: affiliate earnings in the U.S. rose nearly 230%.
- Manufacturers on both sides of the Atlantic are rethinking their businesses in the wake of the recession, leading to some important shifts in the transatlantic industrial base. During 2009, U.S. capacity to produce motor vehicles and chemicals fell 4.4% and 1.7%, respec-

tively, the largest declines since 1949. Capacity declines were also recorded in textiles (7%), printing (over 6%), furniture (more than 5%), and plastics and rubber products (3%). Production capacity grew for semiconductors (10.4%), communications equipment (almost 8%), computers (almost 6%), electricity (more than 2%), and oil and gas (.5%).

- In the eurozone and in central Europe only a few industries can expect strong growth in 2010. Motor vehicle production is set to grow by 8% in the eurozone and 8.4% in central Europe. Industrial production of computers and electronics in central Europe is slated to grow by 14.5% in 2010 and by 18.3% in 2011; a slower but still significant turnaround is also expected for this sector in the eurozone over the next two years.
- U.S. city-regions account for 18 of the top 20 metro areas in the world in terms of labor productivity, with only Luxembourg and Brussels breaking into the top 20. Although European regions had been catching up with their American counterparts in the 1970s and 1980s, this process stalled in the 1990s and U.S. metro regions remain ahead of the game.

Transatlantic Trade

- U.S. exports to Europe in the first three quarters of 2009 fell nearly 20%, and U.S. imports fell 24%, from the same period in 2008.
- U.S. exports to the UK dropped 18%; to France 9.5%, and to Germany 20% through September 2009 from the same period in 2008.
- Although in overall terms the U.S. now trades more with Asia, Europe retains critical importance as an export market for a vast number of American cities and metropolitan regions. The city of Philadelphia, for instance, exports more to the UK alone than to all of Asia. The UK is also the most important export market in the world for goods from the Washington, DC metropolitan region. And the second-largest global export market for goods from the New York metropolitan area? Switzerland.
- U.S. cities ranging from Bloomington, Indiana and Savannah, Georgia to Lawton, Oklahoma, Little Rock, Arkansas or Richmond, Virginia export more to the EU than to any other world region or economic entity.
- The New York city area leads all U.S. metropolitan regions in merchandise exports to Europe, and is the top metro area exporter to the UK, France, Germany and Switzerland. Seattle, Washington is the #2 U.S. metro exporter to Europe, followed by Houston, Texas; Los Angeles; Boston; Philadelphia; Chicago; San Jose, California; and Cincinnati, Ohio.
- Europe accounts for over half of the global exports of such U.S. cities as Salt Lake City, Utah (61.7%), Worchester, Massachusetts (57.6%), Bloomington, Indiana (56.3%), Norwich-New London, Connecticut (55.6%), and Greenville, South Carolina (51.9%).
- Top U.S. metro regions exporting to France in 2008 were, in order, New York, Seattle, Los Angeles, Houston, Boston, Detroit, Cincinnati, Hartford, and Indianapolis.
- Top U.S. metro exporters to Germany were New York, Boston, San Jose-Sunnyvale-Santa Clara, Los Angeles, Chicago, Seattle, Hartford, Greenville, South Carolina, and Tuscaloosa, Alabama.

- Top U.S. metro exporters to the United Kingdom were New York, Philadelphia, Los Angeles, Houston, Seattle, Boston, Washington DC, Cincinnati, Providence, and Salt Lake City.

Transatlantic Investment: Still Driving the Transatlantic Economy

- Trade alone is a misleading benchmark of international commerce; mutual investment is the real backbone of the transatlantic economy. Together the U.S. and Europe accounted for only 27.1% of global exports and 34.6% of global imports in 2008. But together they accounted for 61.7% of the inward stock of foreign direct investment (FDI), and a whopping 74.9% of outward stock of FDI. Moreover, each partner has built up the great majority of that stock in the other economy. In short, mutual investment in the North Atlantic space is very large, dwarfs trade, and has become essential to U.S. and European jobs and prosperity.
- Europe's direct investment stocks in the U.S. in 2008 totaled a record $1.6 trillion, a 7.6% rise from 2007 and nearly double the level a decade earlier. Corporate Europe accounted for 71% of total foreign direct investment in the U.S. in 2008 ($2.3 trillion).
- Over the past decade, European firms invested roughly $1.2 trillion into the U.S., roughly double that of the 1990s. Europe accounted for roughly 76% of total U.S. investment inflows 1990-1999 and 73% from 2000-2009.
- FDI inflows from just the major European countries alone account for over half of total FDI into every region of the United States except the Rocky Mountains (41.6%) and the Far West (31.7%).
- Foreign direct investment to the U.S. from the UK fell 65% and from the Netherlands fell 48% in the January-September 2009 time frame versus a year earlier. Investment from France held relatively steady, at less than 1% less than the same period the previous year.
- German investment bucked the trend, growing by 96% in this period.
- The Southeast and Mideast account for one-third of all EU FDI in the United States. The Southeast's share was roughly 17% and the Mideast's share 16.6% in 2007. The share of the Great Lakes dropped significantly to 11.5%.
- Texas, California and New York are the top three destinations of European FDI. They account for nearly one-fourth of total European FDI in the U.S., just as they represent roughly one-fourth of the U.S. population.
- U.S. capital flows to Europe declined 44% in the first nine months of the year versus the prior year. Declines were reported in Germany, the Netherlands, Spain and a handful of other nations.
- FDI (most of it from Europe) was responsible for about 10% of the total economic output of New York City, and for creating one in twenty jobs in the New York City economy.
- FDI (most of it from the United States) is even more important to London, accounting for more than 25% of the London economy. London remains the #1 European metro

destination for U.S. FDI, and one in ten U.S. businesses investing in London come from the tri-state area surrounding New York City.

- After hitting a cyclical peak in 2007, transatlantic M&A deals fell steeply in 2009. U.S. M&A deals in the EU27 totaled just $32 billion in 2009, a 60% decline from 2008. EU27 M&A deals in the U.S. declined roughly 86% to $22.5 billion in 2009, well off the peak level of $200 billion in 2007.

- Worries over the strength of the U.S. economy, the sub-prime credit crunch, and the U.S. dollar converged in 2008 to produce sharp selling among European investors of U.S. securities. U.S. capital inflows from Europe fell nearly $100 billion in 2008 from 2007 but were back in positive territory through November of 2009. Including the U.K., inflows to the U.S. from the EU were down 67% in 2008 from the prior year but were up 36% in the first 11 months of 2009 versus the same period of 2008.

- After U.S. capital outflows to the EU soared in 2006 ($211 billion) and 2007 ($220 billion), U.S. investors in 2008 were net sellers, selling some $36 billion of European securities and nearly $3 billion in British securities. In the first 11 months of 2009, however, U.S. investors purchased $21 billion in British securities, but had yet to return as net buyers in the region through the first 11 months of 2009.

- U.S. foreign direct investment to Europe (including non-EU states like Switzerland, Norway, Russia and Turkey) dropped roughly 23% in 2008 and plunged by 44% in the first nine months of 2009 versus the same period a year earlier. U.S. FDI flows declined 124% to Spain, 65% to the United Kingdom, 43% to Germany, and 10% to Italy. U.S. FDI flows over this period declined by 68% to Brazil and by 49% to India.

- While the drop in US FDI flows to Europe are considerable, they pale in comparison to the 185% drop in U.S. FDI flows to China in the first three quarters of 2009 versus the same period in 2008. In fact, while U.S. FDI outflows to Europe declined during this period, they still totaled a positive $82.4 billion, whereas for the same period U.S. firms actually *disinvested* in China—there was a net reversal of U.S. FDI out of China of $6.3 billion.

- Even with these sharp cyclical declines mentioned above, U.S. investment flows to Europe continue to outweigh considerably U.S. investment elsewhere. U.S. investment in China in 2008 ($15.7 billion) was just 70% of total U.S. investment in Ireland. U.S. investment in the Netherlands was more than three times larger than U.S. investment in China in 2008. U.S. investment in France was double the amount U.S. firms invested in India ($2.6 billion).

- On a historic cost basis, the U.S. investment position in Europe was nearly four times larger than corporate America's investment position in all of Asia at the end of 2008. U.S. investment stakes in Spain ($70 billion) alone were greater than the combined U.S. investment position in China and India ($62 billion).

- Over the last decade, five out of the top ten overseas markets for U.S. direct investment were in Europe. The Netherlands ranked first, UK second, Ireland fourth, Switzerland fifth, and Germany seventh. France ranked eleventh, Belgium twelfth and Spain fifteenth. Nafta neighbors Canada and Mexico ranked third and sixth. Singapore ranked eighth, Japan ninth and Australia tenth.

- U.S. investment 2000-2009 in Ireland was three times U.S. investment in China. U.S. investment into the UK was nearly seven times larger than into China, and U.S. investment into the Netherlands was almost nine times greater than U.S. investment into China. U.S. firms invested more in the Netherlands over the last decade than they invested in South and Central America, the Middle East, and Africa combined.

- U.S. investment 2000-2009 in Brazil was roughly 70% of total U.S. investment in Spain. U.S. investment in Russia was half that into Italy. U.S. investment into India was less than U.S. investment into Norway.

- Similarly, the U.S. was the top recipient of extra-EU FDI outflows in 2008. Outflows to the U.S. totaled €121 billion, 34.8% of the extra-EU27 total, followed by Switzerland (9.8%), Russia (7.4%) and Singapore (4.4%). In terms of capital stock, the EU's investment stock in the United States rose by 43% between 2000 and 2008, with the U.S. accounting for roughly one-third of extra-EU27 FDI stock abroad.

- EU FDI in the U.S. in 2008 totaled €1.1 trillion, versus total combined investment of €66.5 billion in China and India. EU FDI in China totaled €47.2 billion in 2008, while EU FDI in India tallied just €19.3 billion.

- EU FDI outflows to the BRICs are focused primarily on Russia, and then Brazil, rather than China or India. EU FDI outflows to Russia in 2007 and 2008 totaled €42.8 billion, roughly three times EU FDI to Brazil, four times EU FDI to China and six times EU FDI to India. EU FDI outflows to Russia in 2007-2008, in turn, represented only about one-seventh the value of EU FDI outflows to the United States in this period.

- EU investment assets in the U.S. are nearly 33% of extra-EU27 investment stock. EU investment assets in Brazil were roughly one-tenth of those in the United States in 2008. EU investment assets in Russia were about 8% of those in the U.S. In China, the comparable figure was less than 5% of EU investment stock in the United States. India's total above was even smaller, coming in less than 1% of extra-EU27 investment stock in 2008. All told, EU investment assets in the BRICs are one-quarter of EU investment assets in the United States.

- Between 2001 and 2008 EU FDI outflows to the BRICS represented only 8.3% of global EU FDI outflows outside the EU27, and most of that was to Russia, not China and India. U.S. FDI outflows to the BRICS during this same period accounted for only 4.5% of global U.S. FDI outflows.

- The total output of U.S. foreign affiliates in Europe ($611 billion in 2007) and of European affiliates in the U.S. ($412 billion) is greater than the total gross domestic output of most nations. Combined transatlantic foreign affiliate output rose 7% in 2007 and 21% from the levels of 2000. Total output of transatlantic foreign affiliates is equivalent to the aggregate output of such nations as South Korea, the Netherlands, or Switzerland.

- Global output of U.S. affiliates was nearly $1.12 trillion in 2007; Europe accounted for roughly 55% of the total. The UK accounted for 28% of total U.S. affiliate output in Europe, Germany 14% and France 9%. Output was evenly split between services and manufacturing.

- U.S. affiliates in Ireland accounted for 21% of Ireland's total output in 2007, 6.7% of Switzerland's output, 6.2% of the UK's output, 5.2% of Belgium's output and 3.6% of Hungary's total output.
- U.S. foreign affiliate output in Belgium in 2007 ($23.7 billion) was some 6% larger than U.S. foreign affiliate output in China in 2007 ($22.4 billion) and more than three times as large as affiliate output in India ($7.32 billion).
- U.S. affiliate output in Poland jumped 29% in 2007, to $8.5 billion, after rising 12% in 2006, to $6.4 billion, exceeding U.S. output in more developed markets like Austria, Portugal, and Denmark.
- European affiliates accounted for nearly two-thirds of the $658 billion contributed by foreign affiliates to U.S. aggregate production in 2007. The U.S. output of British firms reached nearly $118 billion in 2007, or nearly 30% of the total. Output from German affiliates operating in the U.S. totaled $86 billion, up nearly 20% from a year earlier, while output from French affiliates rose nearly 5% to $61 billion in 2007.
- Aggregate U.S. foreign assets totaled over $13 trillion in 2007. 63% was in Europe. U.S. assets in the UK alone totaled $3.5 trillion in 2007, roughly one-quarter of the global total, and an amount greater than total combined U.S. assets in South America, Africa and the Middle East.
- U.S. assets in the Netherlands ($1.3 trillion) were the second largest in the world in 2007. America's asset base in Germany ($613 billion) was nearly double the U.S. asset base in South America. The U.S. asset base in Poland, Hungary, and the Czech Republic (roughly $65 billion) was twice the size of corporate America's assets in India.
- In 2007 European firms held roughly three-quarters of total foreign assets in the U.S.—some $9.1 trillion in U.S. assets, a figure that includes bank and non-bank affiliates. The UK was the largest holder of U.S. assets in 2007 ($2.2 trillion), followed closely behind by Swiss firms ($2 trillion), France and Germany.
- Foreign investment and affiliate sales increasingly drive transatlantic trade. A substantial share of transatlantic trade is conducted by companies trading among their own affiliates. Nearly 67% of U.S. imports from Germany and 60% from the EU consisted of this "related party trade" in 2008. Roughly 45% of total U.S. exports to the Netherlands and 31% of U.S. exports to the EU in 2008 was "related party trade."
- Europe accounted for 56% ($2.8 trillion) of total U.S. foreign affiliate sales in 2007, up 15% and well in excess of U.S. exports of $1.6 trillion. U.S. affiliate sales in Europe were roughly double comparable sales in the entire Asia/Pacific region. Affiliate sales in the United Kingdom ($672 billion) exceeded aggregate sales in Latin America. U.S. affiliate sales of $146 billion in China in 2007 were slightly below sales to Italy ($155 billion) and well below those in Germany ($357 billion) or France ($228 billion).
- Affiliate sales are also the primary means by which European firms deliver goods and services to consumers in the United States. In 2007 European affiliate sales in the U.S. ($1.8 trillion) were roughly three times larger than U.S. imports from Europe ($577 billion). German affiliate sales in the U.S. of $383 billion were nearly three times U.S. imports from Germany.

- The transatlantic economy enjoyed a profits boom between 2002 and 2007, but the tide turned in the second half of 2007 and into 2008. U.S. affiliates in Europe earned $173 billion in 2008, down slightly from 2007 but more than three times the cyclical lows of 2001.
- In the first nine months of 2009, U.S. affiliate income earned in Europe plummeted 25% from the same period a year earlier. A slight rebound is expected in 2010, but we do not expect affiliate profits to reach their pre-crisis levels until 2011 or 2012.
- That said, on a global basis, Europe remains the most profitable region of the world for U.S. multinationals, with Europe accounting for half of total global affiliate earnings in 2007 and 2008. U.S. affiliate income from Europe was more than double the total earnings from Latin America and Asia in 2008. Combined U.S. affiliate income from China and India in 2008 ($7.7 billion) was nearly 20% less than affiliate earnings in Germany ($9.4 billion). Affiliates earned nearly three times in Ireland in 2008 than they did in India and China combined.

Services: The Sleeping Giant of the Transatlantic Economy

- Sales of services of U.S. foreign affiliates in Europe soared in 2007 to a record $565 billion. U.S. affiliate sales of services were nearly 180% larger than U.S. service exports to Europe in 2007. The United Kingdom accounted for nearly 38% of U.S. foreign affiliate sales of services in 2007. On a global basis, Europe accounted for 55% of total U.S. affiliate sales of services in 2007.
- European affiliate sales of services in the U.S. totaled $419 billion in 2007; more than 2½ times U.S. service imports from Europe ($152 billion).
- Europe accounted for 43% of total U.S. service exports and for 44% of total U.S. service imports in 2008. Five out of the top ten export markets for U.S. services in 2007 (the last year of available data) were in Europe. The UK ranked Number 1, followed by Germany (4th), Ireland (6th), France (7th), and Switzerland (8th). Similarly, the same five nations that ranked in the top ten U.S. export markets also ranked among the top ten service providers to the U.S.
- The U.S. enjoyed a $52 billion trade surplus in services with Europe in 2008, compared with the U.S. $120 billion trade deficit in goods with Europe.
- New York and London rank as the "most connected" global cities in advanced producer services. 9 Asian and European cities ranked among the top 20 cities; Toronto was the only other North American city.

Transatlantic Jobs

- Despite stories about local U.S. and European companies decamping for cheap labor markets in Mexico or Asia, most foreigners working for U.S. companies outside the U.S. are Europeans, and most foreigners working for European companies outside the EU are American.

- Roughly 42% of the 10 million people employed by U.S. majority-owned affiliates in 2007 lived in Europe—most in the UK, Germany and France, and almost evenly split between manufacturing and services.
- U.S. affiliates employed just as many manufacturing workers in Europe (1.9 million) in 2007 as they did in 1990. Yet the geographic distribution has shifted within Europe towards lower cost locations like Ireland and Poland. Between 1990 and 2007 U.S. affiliate manufacturing employment fell roughly 32% in the United Kingdom and 18% in Germany, but soared 30% in Ireland.
- Even with the decline of manufacturing employment in Germany, the manufacturing workforce of U.S. affiliates in Germany alone totaled 372,000 workers in 2007, not far from the number of manufactured workers employed by U.S. affiliates in China (402,800).
- European majority-owned bank and nonbank foreign affiliates directly employed roughly 3.6 million U.S. workers in 2007. The top five employers were firms from the UK (949,300), Germany (653,900), France (516,000), the Netherlands (391,200) and Switzerland (396,900). European firms employed more than two-thirds of the 5.5 million U.S. workers on the payrolls of majority-owned bank and nonbank foreign affiliates in 2007.
- European affiliates directly employed the most U.S. workers in California (303,600), New York (271,300) and Texas (210,700).

The Transatlantic Knowledge Economy

- Research and development by U.S. foreign affiliates totaled $35 billion in 2007, 66% of which was invested in Europe. Four European countries alone—UK, Germany, France, and Sweden—accounted for roughly 45% of U.S. global R&D spending.
- Research and development by foreign affiliates in the U.S. totaled nearly $40 billion in 2007, up nearly 15% and accounting for roughly 15% of total R&D spending in the U.S. 78% emanated from world-class leaders from Europe in research-intensive sectors like energy, chemicals, telecommunications, and automobiles.
- British-owned affiliates were the largest foreign source of R&D in the U.S. in 2007 ($10.5 billion), up roughly 50% and accounting for 26% of total affiliate R&D in the U.S. Swiss-owned affiliates were second with a 15% share and German affiliates third with a 14% share ($5.6 billion).
- San Jose, California, the home of Silicon Valley, is the most competitive knowledge region in the world. Boston, Massachusetts ranks #2 and Hartford, Connecticut #3. Stockholm ranks #6, the top European city-region. The top twenty knowledge regions include 13 U.S. regions, 5 European regions, and 2 Japanese regions.
- Istanbul, Turkey, the OECD region with the highest percentage of foreign co-patenting, shared 94% of its foreign co-inventions with North America, and only slightly more than 5% with regions in Europe.
- California shared 64% of its foreign co-inventions with Europe and only 16% with other non-U.S. regions in North America.

- The Southeast of England and the Southern and Eastern region of Ireland each share about 50% of their foreign co-inventions with regions in North America, and only about 40% with regions in Europe. Lisbon, Portugal and the western Netherlands share about 40 percent of their foreign co-inventions with regions in North America.
- U.S. cities accounted for 14 of the top 20 metro areas in the world in terms of per capita R&D expenditure by business, with only the Swedish regions of Göteberg and Stockholm and four Japanese regions breaking into the top 20. Sweden's strong business R&D investments are also apparent in the strong showing of Sweden's regions within Europe's top 20 regions in this category, accompanied by five German regions.
- U.S. cities accounted for 19 of the top 20 metro areas in the world in terms of per capita recipients of government-channeled R&D expenditures. Beijing, China was the only non-U.S. city even breaking into the top 20, with European cities all far behind.