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The 50 U.S. States: European-Related Jobs, Trade and Investment

The U.S. economy expanded by **2.9%** in 2018

In July 2019, the U.S. economy is on target to reach a milestone – America's longest economic expansion on record, outpacing the current record reached during the lead-up to the dot-com bubble. Yet despite such a prolonged period of growth, many factors suggest that the U.S. economy still has further room to run, which should benefit the many multinational companies that invest and create jobs in the United States.

First, the consumer backdrop remains relatively healthy and is supported by a strong labor market. With the national unemployment rate at 4% in early 2019, a healthy jobs market and rise in incomes should lead to higher levels of consumer spending in the near term.

In addition, the 2017 corporate tax reform in the United States has shifted the international investment landscape. The reduced tax rate for repatriations of foreign earnings caused firms to bring home large quantities of cash that had been accumulating overseas. Firms have used the cash in a number of ways, from share buybacks and dividends to greater spending on productivity-enhancing capital equipment.

Meanwhile, the synchronized global expansion of 2017 broke down in 2018, as several countries suffered from a slowdown in growth while the United States proved resilient in the face of global uncertainty. Although U.S. growth is estimated to be weaker in 2019 than in 2018, the increase in economic output comes from an already strong base – an economy that is now in excess of $20 trillion.

The latest figures suggest that the U.S. economy expanded by 2.9% in 2018. Risks to the economic outlook for 2019 and 2020 are abundant, however, and include uncertainty around trade, political gridlock in Washington, less accommodative financial conditions caused by Federal Reserve interest rate hikes, and weaker-than-expected global growth. Significant geopolitical risks, such as the U.S. trade war with China and Britain's expected departure from the EU, were cited by the IMF as key downside risks to the growth outlook. In January the IMF revised its projections downward for global growth in 2019 and 2020, while leaving its projections for U.S. growth unchanged at 2.5% in 2019 and 1.8% in 2020. In short, while the U.S. economy remains one of the most competitive and resilient economic forces in the world, there are indications that growth, while continuing, is likely to slow.

Given these factors, despite some turbulence the United States remains one of the most attractive countries in the world for foreign direct investment (FDI). For the past twelve years, the United States has ranked number one in the world for FDI inflows, attracting over $200 billion in 2018 (Table 1).

As Table 2 depicts, no country has attracted more FDI this century than the United States, taking in $4 trillion cumulatively since 2000, more than the total for the next two countries (China and the UK) combined. The table also underscores that, in general, most global FDI flows have been directed at mature, rich developed nations rather than poorer, underdeveloped nations. The United States has attracted 17% of total global foreign investment flows this century, and of the top ten recipient countries for investment flows, six are developed nations.

Risks to the economic outlook 2019 and 2020

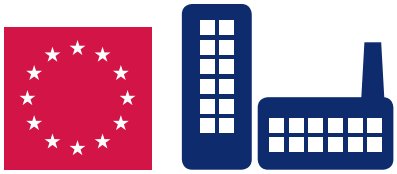
Uncertainty around trade

Political gridlock in Washington

Less accommodative financial conditions

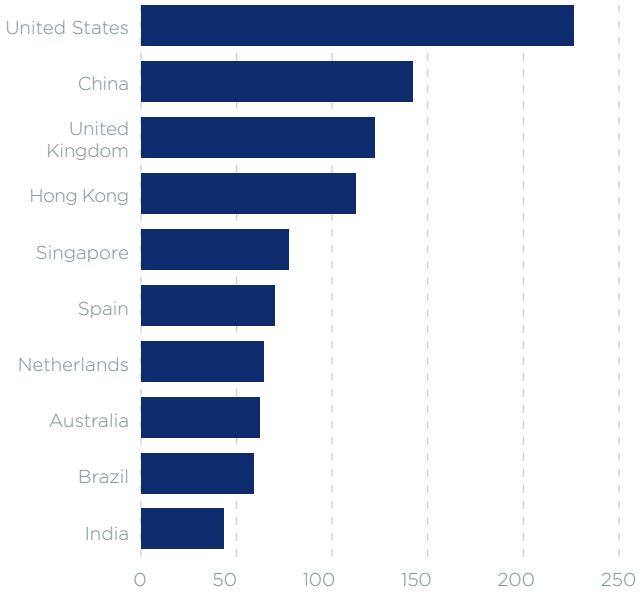
Weaker-than-expected global growth

Brexit



European firms will continue to deepen and spread their footprint in the United States in the years ahead

Table 1 FDI Inflows: Top 10 Host Economies, 2018 ($Billions)



Source: United Nations Conference on Trade and Development (UNCTAD).
Data for 2018 are preliminary estimates as of January 2019.

Table 2 Cumulative Investment Inflows 2000-2017 Rankings

Rank	Country	Cumulative Flows (Billions of U.S. $)	Percent of World Total
1	United States	3,973.1	17.0%
2	China	1,704.3	7.3%
3	United Kingdom	1,413.9	6.0%
4	Hong Kong	1,203.1	5.1%
5	Brazil	807.5	3.5%
6	Germany	782.4	3.3%
7	Canada	757.4	3.2%
8	Netherlands	736.7	3.2%
9	Belgium	705.7	3.0%
10	Singapore	694.7	3.0%

Source: United Nations Conference on Trade and Development (UNCTAD).
Data as of January 2019.

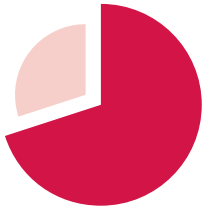
Multiple factors underpin America's dominance in foreign investment flows. First, the U.S. market is a critical destination for multinational companies looking to access a large and wealthy consumer base. European companies investing overseas routinely look to the United States, with a population of 327 million and per capita income of almost $60,000. With less than 5% of the global population, the United States still accounts for around 30% of global personal consumption expenditures, a testament to the purchasing power of American consumers and healthy consumer sentiment in the world's largest economy.

Second, the United States boasts a hyper-competitive economy, moving up to first place in the World Economic Forum's latest Global Competitiveness rankings. This competitiveness is driven by a strong innovative, risk-taking corporate culture and is underpinned by strong institutions, technological readiness, world-class universities, a strong capacity and culture of entrepreneurship, and a dense web of university-industry collaboration in R&D. The ability to attract R&D from companies abroad is important to the innovative health of the U.S. economy. R&D performed by U.S. affiliates of foreign multinationals accounts for about 16% of the total R&D conducted by all businesses in the United States.

Additionally, European companies investing in the United States gain access to a desired pool of skilled, flexible and productive labor. We estimate that U.S. jobs supported directly by European multinational enterprises topped 4.5 million in 2017.

Meanwhile, the United States is a friendly locale to do business, ranking 8th place in the World Bank's 2019 Ease of Doing Business ranking. After ranking 6th in last year's report, the U.S. lost ground to two European countries: Georgia (6th) and Norway (7th). A transparent rule of law, sophisticated accounting, auditing and reporting standards, secure access to credit, ease of entrepreneurship, and respect for intellectual property rights – all of these factors have contributed to the stable and supportive business environment in the United States. Another competitive U.S. endowment: relatively cheap energy costs thanks to the U.S. energy renaissance that has

Total European FDI stock in the U.S.
$2.7 trillion
(2017)



68%
of the total

seen oil production more than double since 2008, in addition to soaring natural gas production.

And with a lower corporate tax rate and strong economic growth projected for the United States relative to the rest of the developed markets, we anticipate that FDI flows to the U.S. economy will strengthen in the near term. Additionally, the rising risks of U.S. protectionism under the current U.S. administration could spur more foreign firms to be inside the U.S. economy. Thus, we expect European firms to continue to deepen and spread their footprint in the United States in the years ahead.

Europe's Stakes in the United States

European firms maintained their dominant foreign investment position in the United States in 2018. Based on our preliminary estimates, we anticipate that 60% ($136 billion) of the total $226 billion worth of U.S. FDI inflows in 2018 were from Europe, reflecting European firms' strategy to be "inside" the world's largest and most dynamic market.

U.S. FDI inflows from Europe and the rest of the world are expected to come in lower in 2018 than the prior year. This marks the third straight year of declines for European FDI flows to the U.S., after reaching a peak of $339 billion in 2015. That said, most of the retreat in foreign investment flows can be attributed to weaker-than-usual cross-border mergers and acquisition (M&A) activity conducted in the United States in 2018.

According to the United Nations, acquisitions of U.S. assets accounted for 12 of the 20 largest M&A deals completed in 2016 and 2017, but only six in 2018. These large megadeals can skew the data on FDI flows materially, so any major year-over-year fluctuations in the investment data should be interpreted carefully.

Data from the Bureau of Economic Analysis similarly suggests a retreat in U.S. FDI inflows in 2018. During the first nine months of last year, U.S. FDI inflows from Europe came in at $102 billion, which is almost 20% lower than comparable figure from a year earlier. Most of the shortfall in flows was caused by a massive net negative investment flow from Luxembourg of -$122 billion in the second quarter of 2018. Total FDI inflows from Europe were -$19 billion in the second quarter, though rebounded to +$64 billion in Q3. The large negative outliers in the 2018 data are likely caused by a transfer of ownership abroad of previously U.S.-based investments. In other European countries, the net change in investment flows to the United States in 2018 was mixed, with some countries posting strong growth in FDI flows, while others saw a pullback. French investment flows to the United States grew 18% in the first three months of the year, German flows increased 23%, while Irish flows were 70% higher. Meanwhile, the comparable figures for the UK and Switzerland were -42% and -21% respectively.

UK firms were the largest source of greenfield foreign investment projects in 18 U.S. states during the ten-year period from October 2008-September 2018. German companies led in 16 states, followed by Canadian and Japanese companies each in 8 states.

Despite the overall year-over-year decline in investment flows, Europe continues to have an outsized investment presence in the United States, as reflected by its foreign direct investment position, a more stable metric of foreign investment in the United States. In terms of foreign capital stock in the United States, Europe again leads the way. The region accounted for 68% of the total $4.0 trillion of foreign capital sunk in the United States as of 2017. Total European stock in the United States of $2.7 trillion was four times the level of comparable investment from Asia.

The United Kingdom remains by far the largest foreign investor, based on FDI on a historic cost basis, with total FDI stock in the United States totaling $541 billion in 2017. Luxembourg ranked second in Europe ($411 billion), followed by the Netherlands ($367 billion), Germany ($310 billion), Switzerland ($309 billion), and France ($275 billion). Many firms from these countries are just as embedded in the U.S. economy as in their own home markets.

Box 1. Chinese Investment in North America and Europe

While both U.S. and European stakes in China are on the rise, and vice versa, the ties that bind the United States and Europe are much thicker and far deeper than comparable ties with China. The United States and Europe represent large, wealthy markets, with respect for the rule of law and transparent rules and regulations. China, on the other hand, remains relatively poor, with many barriers to entry in various sectors, all wrapped in an opaque regulatory environment that favors local firms or large state-owned enterprises.

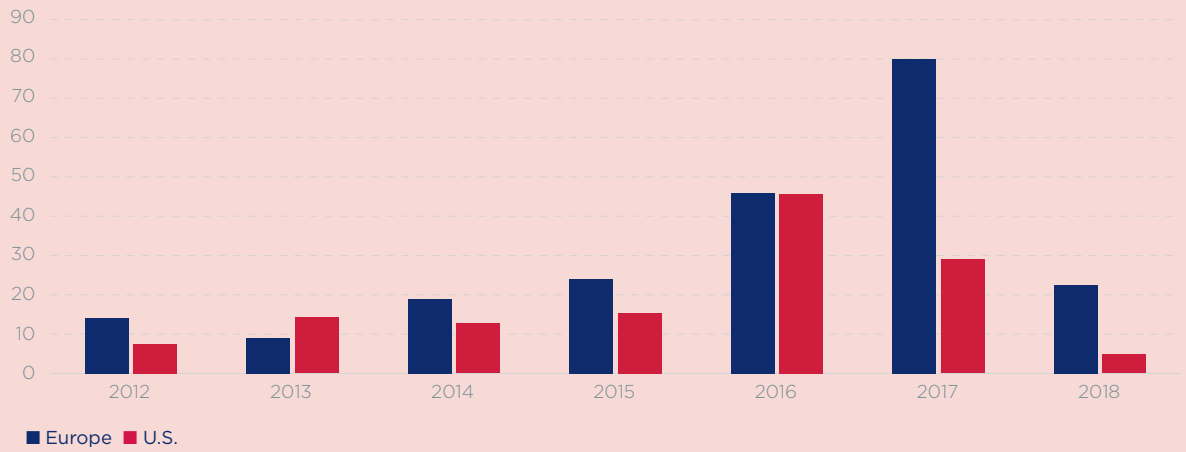
Table 3 highlights that Chinese investments in both the United States and Europe had grown since the start of the decade, but have recently been on a downward trajectory. Chinese investment in the U.S. peaked in 2016, but declined in 2017.

Chinese investment flows to the United States in 2018 are estimated to have declined even further due to more restrictive Chinese policies on outbound investment, significant Chinese disinvestment of U.S. real estate, hospitality and entertainment assets, tighter U.S. investment screening, and a more protectionist tilt from the administration in the United States. According to data from the Rhodium group, in 2018 Chinese greenfield investments and acquisitions in the United States fell to $5 billion, their lowest level in seven years. At the same time, Chinese investment in several large mining acquisitions in Canada meant that Canada received more Chinese investment than the United States in 2018. Looking ahead, the pipeline of pending deals in North America (less than $5 billion) is weak.[1]

Chinese investment in Europe fell dramatically in 2018, but was more robust than Chinese investment in the United States. According to the Rhodium Group, Chinese FDI in Europe was $22.5 billion in 2018, 70% down from the 2017 figure of $80 billion (over half of which was due to one deal alone: ChemChina's acquisition of Syngenta for $43 billion). The UK received the most Chinese investment ($4.94 billion), but this was 76% less than in 2017. Similar falls were seen in the Netherlands (down 76%), Switzerland (down 99%) and Italy (down 21%).

Chinese investment increased in Central and Eastern Europe, albeit from a low base. Chinese investors also made acquisitions worth $1.83 billion in France (up 86% compared to 2017), $2.52 billion in Germany (up 34%), $1.17 billion in Spain (up 162%) and $4.05 billion in Sweden (up 186%). Investment in Luxembourg spiked from under $100 million in 2017 to $1.87 billion, while in Denmark it grew from $200 million to $1.1 billion. Pending deals of more than $20 billion means that the Chinese investment pipeline in Europe will continue to be more robust than in North America.[2]

Table 3 Value of Completed Chinese FDI Transactions in Europe vs. U.S. (Billions of U.S. $)



Data represents greenfield investments and acquisitions in the U.S. and Europe, excludes divestitures. Europe includes EU28 plus Norway, Switzerland, Iceland, Lietchtenstein.
Source: Rhodium Group.
Data as of January 2019.

European affiliate earnings in the U.S.

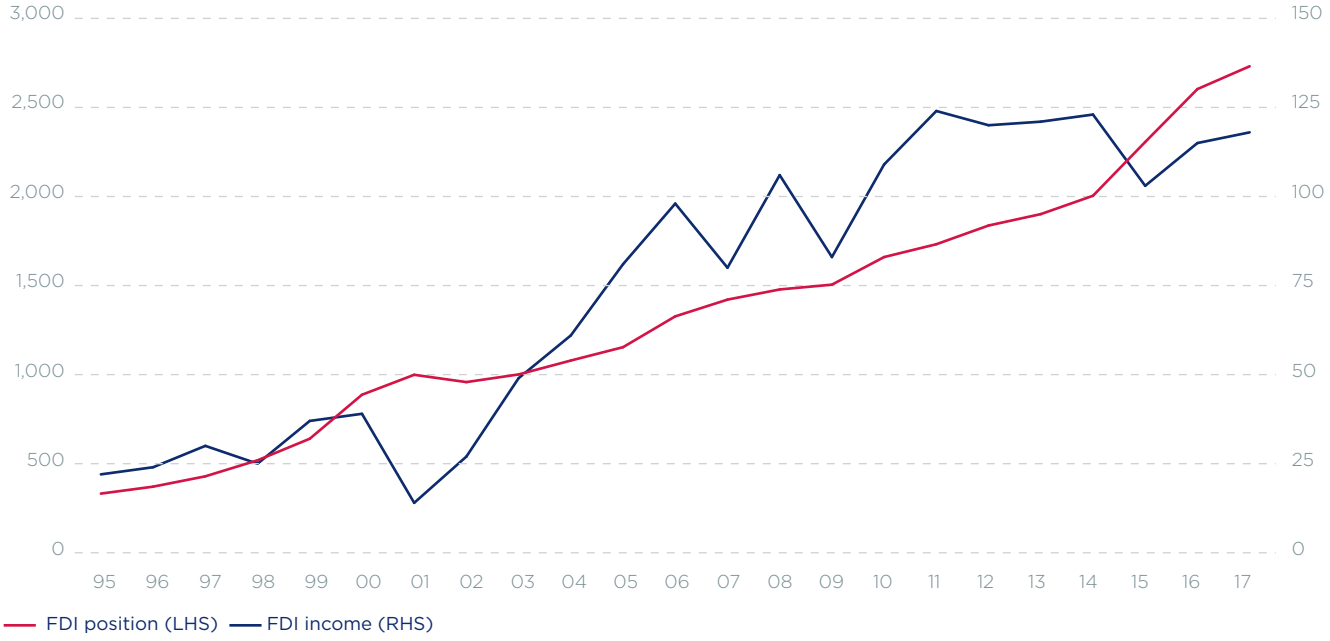
$132 billion
(estimate 2018)

+12%
from 2017

Whether Swiss pharmaceutical corporations, German auto manufacturers or British services providers, European firms' commercial links to America have driven corporate sales and profits higher in recent decades. In 2018, European firms earned an estimated $132 billion in the United States, a 12% increase from the income levels that European affiliates recorded in 2017. Through the first nine months of 2018, European affiliate income earned in the U.S. totaled $99 billion. Affiliates of British multinationals are the top earners and saw a steady increase in income of 7% in the first nine months of 2018, compared to the same period in 2017. Taking the long view, affiliate earning levels for most European firms are significantly higher today than they were at the start of the century. As European firms have built out their U.S. operations, the payoff has been rising affiliate earnings in one of the largest markets in the world.

Table 4 highlights this connection between European investment in the United States and European affiliate earnings. The two metrics are highly correlated – the greater the earnings, the greater the likelihood of more capital investment, and the more investment, the greater the upside for potential earnings and affiliate income. The bottom line is that Europe's investment stakes in the United States have paid handsome dividends over the years, notably since the Great Recession, given the growth differential between the United States and Europe. That said, while European investment in the United States has paid off rather well, the benefits have not been one-sided. The United States has benefitted as well in terms of increased jobs and wages for U.S. workers, and rising exports via European affiliates operating in the United States.

Table 4 European Foreign Direct Investment and Income Earned in the United States (Billions of U.S. $)



Sources: Bureau of Economic Analysis.
Data as of January 2019.

Europe's Stakes in America's 50 States

European firms can be found in all 50 states, and in all economic sectors – manufacturing and services alike. The employment impact of European firms in the United States is quite significant. Table 5 provides a snapshot of state employment provided directly by European affiliates across the United States. It is important to note that the chart represents only those jobs that have been directly created by European investment, thus underestimating the true impact on U.S. jobs of America's commercial ties to Europe. Jobs tied to exports and imports of goods and services are not included, nor are many other jobs created indirectly through suppliers or distribution networks and related activities. Given mounting labor shortages in the United States, many European affiliates have taken the lead in job training in the U.S., and have emerged as strong advocates and funders of vocational training.

As mentioned above, European employment is relatively diverse and spread across many U.S. states. Not surprisingly, California, Texas and New York – some of the most populous states in the nation – are home to the largest share of European affiliate jobs. Over 1 million U.S. workers were on the payrolls of European affiliates in the three states combined in 2016. As the economy has recovered from the 2008/2009 recession, so have the payrolls of European affiliates, with an increase in hiring across many states and industries. In 2016, all 20 of the top 20 states measured by European affiliate employment increased hiring.

UK firms were the largest sources of onshored jobs in 27 U.S. states. Japanese companies led in 10 states, Canadian companies in 9, and German and Dutch companies each were the leading onshored jobs suppliers in 2 states.

Table 5 Ranking of Top 20 States by Jobs Supported Directly by European Investment
(Thousands of employees)

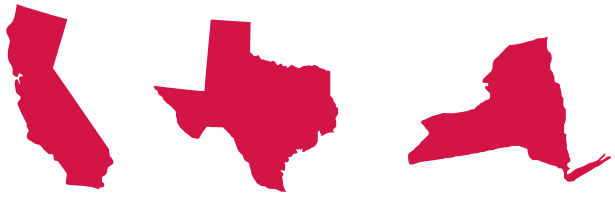
U.S. State	2014	2015	2016
California	389.6	423.1	442.5
Texas	332.8	361.4	367.9
New York	310.0	332.1	348.4
Illinois	206.0	212.1	230.1
Pennsylvania	213.7	213.3	220.4
Florida	181.0	196.4	203
New Jersey	187.4	190.4	198.4
North Carolina	173.8	181.9	184.3
Michigan	147.6	155.6	159.9
Massachusetts	161.9	152.6	159.5
Ohio	145.1	152.8	157.5
Georgia	124.8	131.8	138.3
Virginia	126.7	131.6	137.1
Indiana	108.8	112.2	113.2
South Carolina	92.1	98.2	101.5
Tennessee	82.4	93.3	98.0
Maryland	87.5	90.7	91.8
Connecticut	80.9	81.3	82.7
Missouri	73.1	74.8	79.2
Minnesota	64.7	70.6	74.0

Source: Bureau of Economic Analysis.

By industry, Europe is by far the largest source of FDI in the manufacturing industry, with European companies representing 76% of the total inward investment position in the U.S. Within the manufacturing industry, the U.S. chemicals sector was the biggest recipient of European investment followed by transportation equipment. In terms of European affiliate employment, the retail trade industry employed the most workers

The presence of European affiliates in many states and communities across the United States has helped to **improve America's job picture.**

Top 3 states with
the largest share of European affiliate jobs



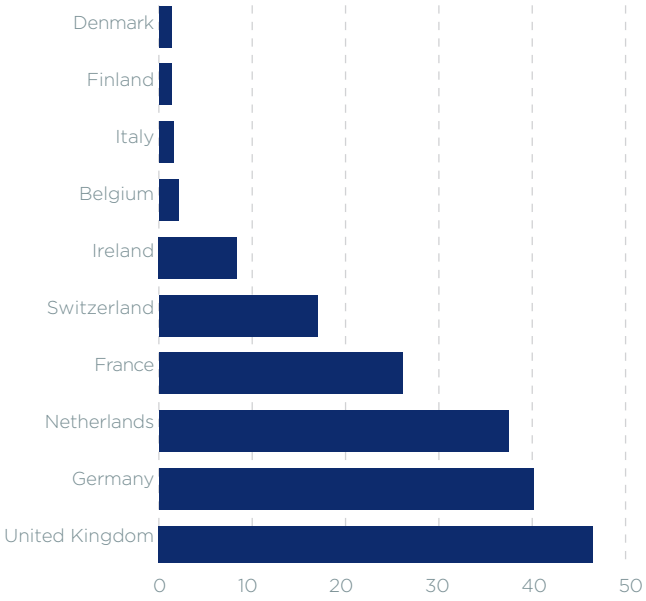
California Texas New York

(509,000 jobs in 2016) while European companies in the chemicals manufacturing and transportation equipment industries were also important contributors to U.S. jobs. (See Box 2 on EU-U.S. auto investment and trade).

In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's job picture. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

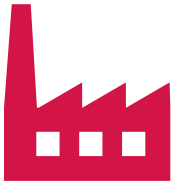
Deep investment ties with Europe have also generated U.S. trade. Table 6 illustrates the export potential of European affiliates operating in the United States. As a point of reference, in any given year, foreign affiliates based in the United States and exporting from there typically account for one-fourth of total U.S. merchandise exports, with the bulk of these exports resembling intra-firm trade, or trade between the affiliate and parent company. In 2016, the last year of available data, U.S. exports shipped by all foreign affiliates totaled $370 billion, with European affiliates accounting for 52% of the total. The United Kingdom, the Netherlands and Germany dominate European affiliate exports from the United States, with the three countries combined representing 65% of European affiliate exports in 2016. By commodity, transportation equipment accounted for 25% of German-owned affiliate exports from the United States. In the end, the more European affiliates export from the United States, the higher the number of jobs for U.S. workers and the greater the U.S. export figures.

Table 6 U.S. Exports of Goods Shipped by Affiliates of European Multinational Corporations
($Billions)

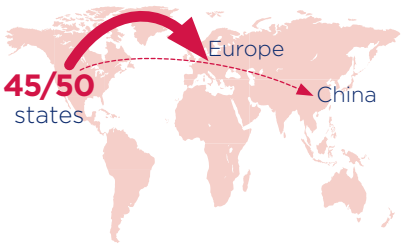


Source: Bureau of Economic Analysis. Data for 2016.

Every U.S. state maintains cross-border ties with Europe, with various European countries key export markets for many U.S. states, a dynamic that creates and generates growth in the United States. Table 7 ranks the top 20 state goods exporters to Europe in 2017, with California ranked number one, followed by Texas, New York and Washington. Overall exports increased moderately, up 5% in 2017 from the prior year, but have jumped sizably since 2000.



Europe is by far **the largest source of FDI in the U.S. manufacturing industry**



45/50
states **export more to Europe**
than China
(2017)

Table 8 shows the importance of the European market to U.S. state exports. Even as an emerging middle class in China demands more foreign imports, U.S. merchandise exports to Europe are still more than double U.S. exports to China. On a state level, 45 of 50 states exported more to Europe than China in 2017. California, Texas, Michigan, Illinois and Ohio each exported more than twice as many goods to Europe as to China. New York's exports to Europe were more than eight times those to China. Only the Pacific-oriented states of Alaska, Hawaii, New Mexico, Oregon and Washington sent more goods to China than Europe in 2017.

In addition, while the figures are significant, they actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. state exports of services. This is an additional source of jobs and incomes for U.S. workers, with most U.S. jobs tied to services. Europe is by far the most important market in the world for U.S. services, and the United States consistently records a service trade surplus with Europe. Suffice it to say that if services exports were added to goods exports by state, the European market becomes even more important for individual states.

Table 7 Ranking of Top 20 U.S. States Total Goods Exports to Europe, by Value ($Billions)

U.S. State	2000	2017	% Change from 2016	% Change from 2000
California	27.9	35.7	4%	28%
Texas	12.3	33.7	17%	174%
New York	15.3	26.2	0%	71%
Washington	13.1	15.2	-11%	16%
Illinois	7.3	12.9	15%	76%
Florida	3.9	10.7	9%	175%
Massachusetts	8.0	10.6	3%	32%
New Jersey	6.4	10.5	9%	65%
Pennsylvania	4.7	10.1	0%	116%
Kentucky	3.1	10.1	6%	229%
Indiana	3.1	9.6	7%	205%
Louisiana	3.3	9.4	9%	187%
South Carolina	2.8	9.1	-10%	227%
North Carolina	4.6	9.1	19%	97%
Ohio	5.0	8.7	3%	73%
Georgia	4.0	8.6	5%	117%
Michigan	5.0	7.6	7%	51%
Connecticut	3.5	7.3	15%	108%
Tennessee	2.7	6.7	5%	146%
Nevada	0.3	5.9	22%	1940%
U.S. Total	**187.4**	**332.7**	**5%**	**78%**

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

Box 2. The EU-U.S. Auto Trade and Investment Landscape

The auto industry is a key example of the strong trade and investment ties between the U.S. and Europe. Foreign auto companies are critical supports to the U.S. economy in terms of employment, value added, exports, technological advancements and ultimately America's productivity and competitiveness.

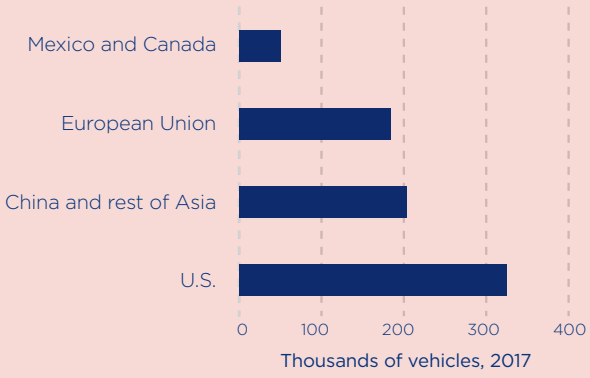
- **Employment:** European companies directly supported 173,000 jobs in the U.S. motor vehicle and parts industry, or 42% of total foreign affiliate employment in this industry. This figure, however, only accounts for direct employment by affiliates and ignores the downstream effects that European auto manufacturing investment has had on other industries such as automotive dealers, parts suppliers, research and development, etc. Incorporating the larger downstream employment effects, the European Commission estimates that EU auto companies support around 420,000 U.S. jobs.
- **Production:** According to the European Automobile Manufacturers Association, EU auto companies produced roughly 2.9 million passenger cars in 2017, or 26% of total U.S. production. All totaled, European auto and parts companies contributed $34 billion towards America's gross domestic product in 2016.
- **Exports:** European manufacturers not only produce vehicles for U.S. consumers, but also use the U.S. market as a key export hub to send their vehicles overseas. About 60% of European cars produced in the U.S. are exported to third markets, like China and the EU. Thus, trade tensions between the U.S. and China threaten an important source of demand for European automakers.
- **Innovation**: European auto companies that invest in the U.S. are also key contributors to the innovation and research culture that drives the U.S. economy. R&D expenditures by European affiliates in the U.S. auto industry reached a record $5.5 billion in 2016, or 12.5% of total European affiliate R&D spending.

While foreign direct investment is the primary method of cross-border commerce in the auto industry, U.S.-EU trade ties are also significant, with auto-related trade representing 10% of total trade between the two regions. The U.S. was the largest global market for EU car exports in 2017, representing 29% (€40 billion) of total EU auto exports. Meanwhile, Europe was a significant purchaser of U.S. produced vehicles, taking in 20% of total U.S. car exports. The EU applies a 10% tariff on imported cars. The U.S. applies a 2.5% tariff, but imposes higher duties than the EU on imported trucks.

The accompanying charts highlight European auto companies' investment stakes in the U.S. as a source of exports, investment, jobs and R&D to the U.S. economy.

1. Exports

Made in America, Exported from America: Where German Cars Made in the U.S. Are Sold

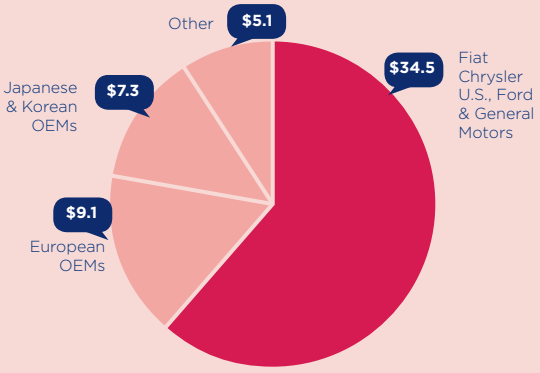


Source: German Automotive Manufacturers' Association, Wall Street Journal.

2. Capital Investment

Investments in the U.S. Auto Industry

Announced Capital Investments, Billions of $ (2013-2017)

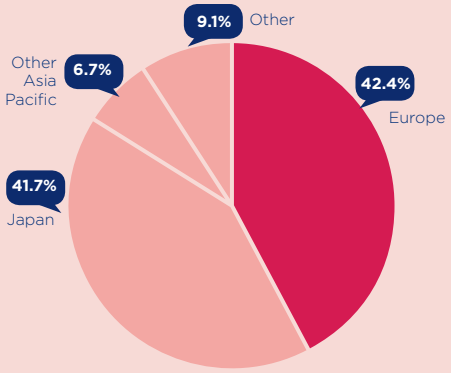


Source: American Auto Council.
OEM: Original Equipment Manufacturer.

3. Jobs

Foreign Affiliate Employment in the U.S. Autos/Parts Manufacturing Industry

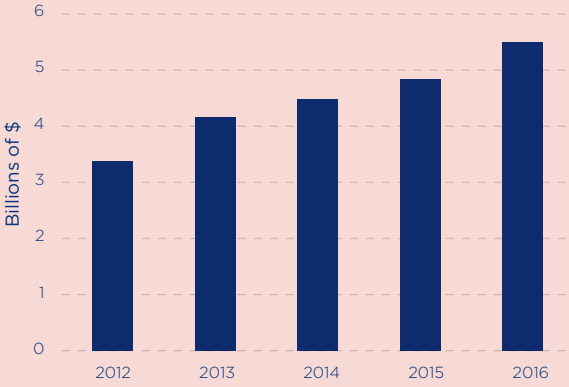
% of total (2016)



Source: Bureau of Economic Analysis.

4. Innovation

R&D Expenditures by European Auto Companies in the U.S.



Source: Bureau of Economic Analysis.

Table 8 U.S. State Exports of Goods to Europe and China, 2017 ($Millions)

U.S. State	Europe	China
Alabama	5,609	3,573
Alaska	888	1,322
Arizona	3,964	1,190
Arkansas	1,732	368
California	35,741	16,433
Colorado	1,669	586
Connecticut	7,258	795
Delaware	1,010	353
Florida	10,696	1,865
Georgia	8,594	2,837
Hawaii	19	125
Idaho	409	353
Illinois	12,874	5,271
Indiana	9,583	2,068
Iowa	2,543	587
Kansas	2,031	706
Kentucky	10,083	2,815
Louisiana	9,432	7,761
Maine	444	238
Maryland	3,012	600
Massachusetts	10,574	2,304
Michigan	7,591	3,675
Minnesota	4,642	1,987
Mississippi	2,143	787
Missouri	2,475	929
Montana	227	129
Nebraska	933	483
Nevada	5,913	805
New Hampshire	1,875	423
New Jersey	10,495	1,594
New Mexico	345	1,002
New York	26,221	3,168
North Carolina	9,112	2,362
North Dakota	225	52
Ohio	8,693	3,815
Oklahoma	1,275	222
Oregon	2,853	3,933
Pennsylvania	10,093	2,563
Rhode Island	686	166
South Carolina	9,143	6,230
South Dakota	131	64
Tennessee	6,650	2,502
Texas	33,690	16,419
Utah	4,107	737
Vermont	418	202
Virginia	4,869	1,720
Washington	15,152	17,967
West Virginia	2,485	535
Wisconsin	4,224	1,732
Wyoming	72	37

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

By destination, key markets in Europe for U.S. states include Germany, the United Kingdom, and the Netherlands. Germany is the most important European customer for 18 different U.S. states; The UK is the biggest European customer for 14 U.S. states, followed by Belgium for 5 states, and France and the Netherlands each of 4 states. Germany is the most important European goods supplier for 33 different U.S. states.

Appendix A highlights European-related jobs, trade and investment for each of the 50 states.

Endnotes

1 https://rhg.com/research/chinese-fdi-in-north-america-vs-europe/; https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi
2 Rhodium defines "Europe" as the EU-28 plus the EFTA countries: Iceland, Liechtenstein, Norway and Switzerland.