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Jobs, Trade and Investment: Enduring Ties that Bind







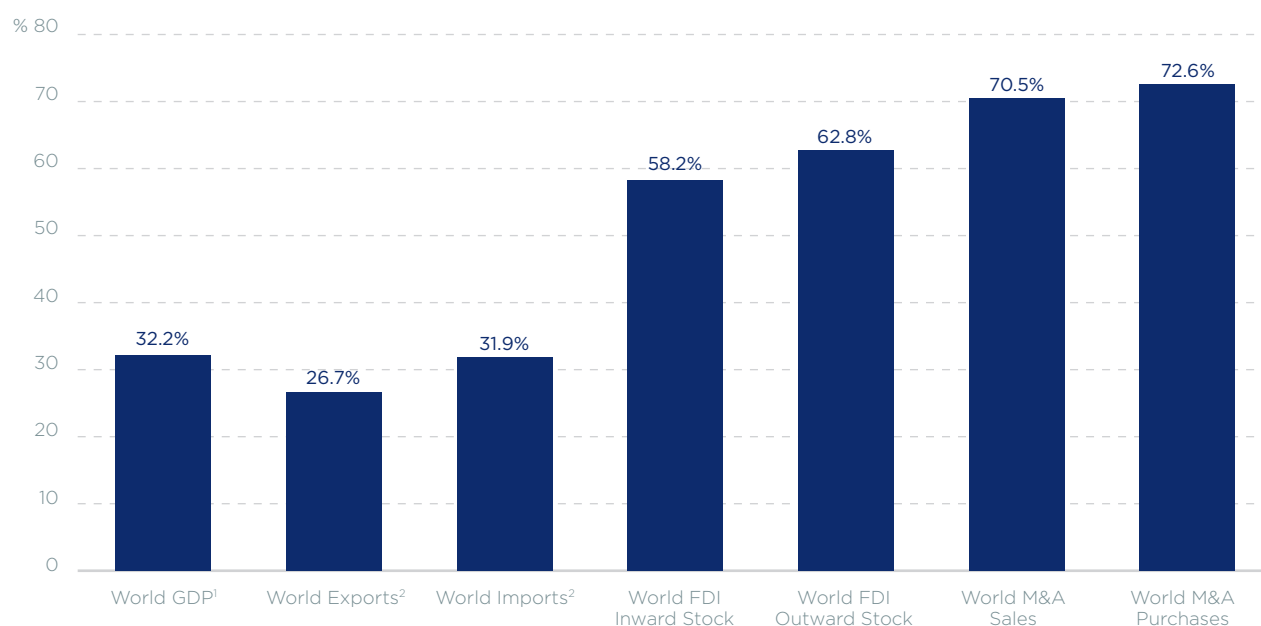
Despite much talk of de-globalization and decoupling, and siren calls of “America First,” “Britain First,” or “Europe First,” the United States and Europe remain deeply intertwined and embedded in each other’s markets. This is not likely to change any time soon given that consumers and producers, workers and companies, citizens, and their governments on both sides of the pond directly benefit from the deep integrative forces that bind the United States and Europe together.

These ties have become even more important as the United States and the European Union each become embroiled in increasingly contentious trade and investment tensions with China. China’s economic rise has been dramatic and continues to affect the global economy. This still does not alter a basic fact of global economic life: the dense interlinkages of investment, trade, technology, innovation and jobs that bind the two sides of the North Atlantic together continue to make the transatlantic economy a key pillar of the global economy. The combined output of the United

States and the EU28 plus close partners Switzerland, Iceland, and Norway accounted for roughly one-third of world GDP in terms of purchasing power parity in 2019. Even if one excludes the United Kingdom, the U.S. and the EU27 (plus Switzerland, Iceland and Norway) account for a substantial 30% of world GDP – higher than the combined output of China and India (one quarter of world GDP).

The transatlantic economy is not only larger than the twin giants of Asia, it is also significantly wealthier. Consumers in the U.S. and the EU easily outspend their counterparts in China and India. As mentioned in Chapter One, the U.S. and EU combined accounted for 50% of global personal consumption in 2018, versus a combined share of just 14% for China and India. Per capita incomes – a key metric of a nation’s wealth – matter, and on this score, it’s no contest. The U.S. (with a per capita income of roughly \$63,000) and the EU (\$37,000) are far wealthier than China (\$10,000) and India (\$2,000). Wealth matters.

Table 1 The Transatlantic Economy vs. The World (Share of World Total)



Sources: UN, IMF, figures for 2018. Transatlantic economy measured as U.S., EU, Norway, Switzerland and Iceland.

1. Based on PPP estimates.

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

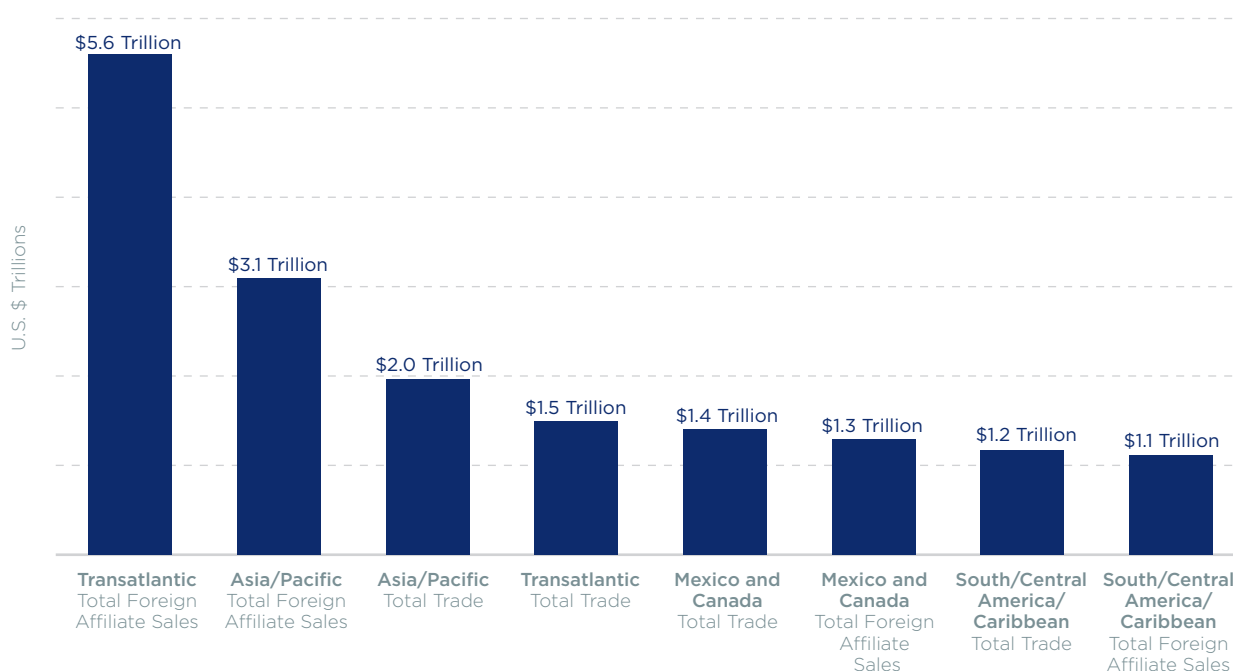
In addition, the transatlantic economy is a repository of innovation and technological advancement, and at the forefront of global foreign direct investment and global mergers and acquisitions activity. Taken together, U.S. and European exports to the world (excluding intra-EU trade) accounted for 27% of global exports in 2018, the last year of complete data; combined imports represented 32% of the world total. Meanwhile, the U.S. and Europe together accounted for 58% of inward stock of foreign direct investment (FDI) and 63% of outward stock of FDI. Each partner has built up the great majority of that stock in the other economy. Mutual investment in the North Atlantic space is very large, dwarfs trade, and has become essential to U.S. and European jobs and prosperity.

It is no surprise, therefore, that the largest commercial artery in the world stretches across the Atlantic. Total transatlantic foreign affiliate sales were estimated at \$5.6 trillion in 2018, easily ranking as the top artery

in the world on account of the thick investment ties between the two parties.

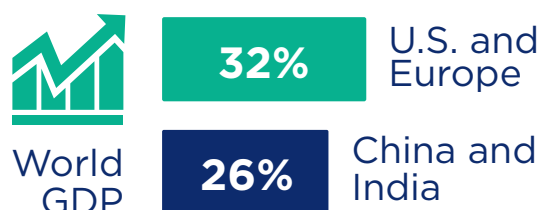
That said, the burgeoning middle class of the developing nations represents a new source of supply (labor) and demand (consumers) for U.S. and European firms. American and European firms are building out their in-country presence in the developing nations, and for good reason. Economic growth rates are still above the global average in most of these nations, populated with young consumers who desire Western goods and services. In addition, the technological skill levels of many developing nations are now on par with many developed nations. China, for instance, is rapidly emerging as an innovation superpower; India lags behind but is advancing; more people in Latin America, Africa and the Middle East are online and connecting to the digital economy. It all makes perfect sense for U.S. and European firms to invest outside the transatlantic economy.

Table 2 America's Major Commercial Arteries



Foreign Affiliate Sales: Estimates for 2018. Total Trade: Data for goods & services, 2018. South/Central America and Caribbean includes Mexico.

Source: Bureau of Economic Analysis.



The transatlantic economy

A launchpad to the rest of the world for U.S. and European companies



What is often missing from this either-or picture, however, is the fact that for many U.S. and European companies, the transatlantic economy is the geo-economic base from which they can engage successfully in other parts of the world. Many European car companies, for instance, invest in the United States and then export cars made in the U.S.A. to China and other countries. U.S. services companies, in turn, use the scale offered by their dense investment linkages across the transatlantic economy to be globally competitive when it comes to offering services in other parts of the

world. Many U.S. multinationals – for both goods and services – also use their presence in stable and secure Europe to serve burgeoning, but often volatile, markets of North Africa and the Middle East.

In all of these ways, the transatlantic partnership remains important not only to the United States and Europe, but also to the world. The U.S.-European partnership is too big and too important to fail, as is clear when one dissects the activities of foreign affiliates on both sides of the pond.

Box 1. Not by Trade Alone

There is a widespread tendency in political circles, by the media, among the broader public, and even by some in the business community to equate international commerce with trade in goods. By this reckoning, surpluses in goods trade are “good” and deficits are “bad.” Yet trade deficits can arise due to factors other than trade, such as differing domestic growth, consumption or savings rates among countries. Equally important is a simple fact: trade in goods, like trade itself, is a misleading benchmark of international commerce. This is especially true when it comes to the transatlantic economy.

As we document in this study, the broad-based nature of U.S.-European commercial ties cannot be understood by looking at merchandise trade figures alone. While some may associate the EU’s large trade surplus in goods with the United States as a key competitive advantage for Europe, there are several other modes through which global companies reach consumers. These include services trade broadly, as well as digitally-deliverable services in particular – both key U.S. strengths. U.S. companies also deliver goods and services to Europeans through U.S. affiliates operating in Europe. They also generate so-called “primary income” from their foreign affiliate earnings as well as from investment income earned in Europe. These are all factors underscoring why investment, not trade, is the engine of the transatlantic economy. Of course, European companies do the same in the United States.

Taking all of these factors into consideration leads to a more balanced view of transatlantic commerce. While the United States does run a large deficit in goods with the EU (-\$170 billion in 2018), the U.S. surplus in services trade (+\$55 billion) and primary income (+\$112 billion) with the EU roughly offsets the goods imbalance. U.S. primary income receipts from the EU were almost \$450 billion in 2018, versus EU-based companies’ profits and investment income of just \$336 billion in the United States.

In short, we believe the eight indices we set forth in this chapter offer a more accurate view of the nature and significance of the transatlantic economy than a narrow focus on goods trade alone.

The Ties That Bind – Quantifying the Transatlantic Economy

As we outline and emphasize each year in this annual survey, it is the activities of foreign affiliates – the foot soldiers of the transatlantic partnership – that bind the United States and Europe together. Investment, not trade, drives U.S.-European commerce. Understanding this dynamic is essential to understanding the enduring strength and importance of the transatlantic economy.

Over the past years we have outlined and examined eight key indices that offer a clear picture of the “deep integration” forces binding the U.S. and Europe together. This chapter updates those indices with the latest available data and our estimates. Each metric, in general, has ebbed and flowed with cyclical swings in transatlantic economic activity, but has nevertheless grown in size and importance over the past decade.

1. Gross Product of Foreign Affiliates

As standalone entities, U.S. affiliates in Europe and European affiliates in the United States are among the largest and most advanced economic forces in the world. The total output, for instance, of U.S. foreign affiliates in Europe (an estimated \$740 billion in 2018) and of European foreign affiliates in the U.S. (estimated at \$666 billion) was greater than the total gross domestic product of most countries. For example, combined transatlantic affiliate output – nearly \$1.4 trillion – was larger than the output of such countries as Mexico, the Netherlands, Turkey or Indonesia.

By our estimation, European affiliate output in the United States rose by around 5.5% in 2018, while U.S. affiliate output in Europe rose by a slower pace of 3.5%. In both cases, growth still far outpaced broader GDP gains in either market. We expect modest gains in U.S. foreign affiliate output in the near term, reflecting

relatively weaker economic conditions across Europe. In the United States, European affiliates are operating in one of the most dynamic economies in the world and are expected to boost their near-term output again this year.

On a global basis, the aggregate output of U.S. foreign affiliates reached \$1.5 trillion in 2018, with Europe (broadly defined) accounting for around 51% of the total.

Looking at actual figures for 2017 from the Bureau of Economic Analysis, U.S. affiliate output in Europe (\$715 billion) was roughly double affiliate output in the entire Asia-Pacific region (\$362 billion). While affiliate output in places like China (\$72 billion in 2017) and India (\$35 billion) has increased over the past decade, what U.S. affiliates produce in these two emerging Asian giants pales in comparison to affiliate output in the United Kingdom (\$180 billion), Germany (\$85 billion), or Ireland (\$97 billion).

In the United States, meanwhile, European affiliates are major economic producers in their own right, with British firms of notable importance. The U.S. output of British companies reached an estimated \$170 billion in 2018, about one-quarter of the European total. For the same year, output from German affiliates operating in the United States totaled \$115 billion, or nearly 20% of the European total.

In 2017, the last year of available data, European affiliates in the United States accounted for nearly 62% of the roughly \$1 trillion that U.S. affiliates of foreign multinationals contributed overall to U.S. aggregate production.

Beyond Europe, only Canada and Japan have any real economic presence in the United States. Japanese affiliate output totaled nearly \$154 billion in 2017, the last year of available data, while Canadian affiliate output totaled \$94 billion.

Total output of foreign affiliates

(2018 estimate)



\$740 billion
U.S. in Europe

\$666 billion
Europe in the U.S.

U.S. affiliate output

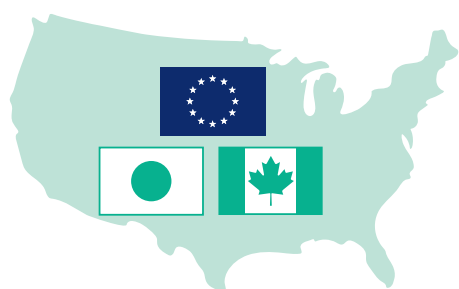
(2017)



\$715 bn
Europe



\$362 bn
Asia-Pacific



Beyond Europe, **only Canada and Japan** have any real economic presence in the United States

Deep and thickening transatlantic investment ties contrast starkly with foreign direct investment coming to each continent from China. For some years Chinese FDI in both the United States and Europe soared from a relatively low base. However, Chinese investment is now plummeting on both continents, due to bilateral commercial tensions and tighter U.S. and European scrutiny of such investments.

As for foreign-owned assets in the United States, Europe's stakes are sizable and significant. Total assets of European affiliates in the United States were valued at roughly \$8.1 trillion in 2017. The UK ranked first in Europe, followed by Germany, Switzerland, and France. In 2017, the last year of available data, European assets in the United States accounted for over 56% of all foreign-owned assets in the United States.

2. Assets of Foreign Affiliates

The global footprint of Corporate America and Corporate Europe is second to none, with each party each other's largest foreign investor. According to the latest figures from the Bureau of Economic Analysis, U.S. foreign assets in Europe totaled \$17.3 trillion in 2017, representing roughly 62% of the global total. For 2018, we estimate that U.S. foreign assets in Europe reached \$17.5 trillion, close again to 60% of the global total. The largest share of U.S. assets in Europe were in the UK, which accounted for U.S. assets in excess of \$5.5 trillion, around 20% of the global total.

U.S. assets in the Netherlands (around \$3.3 trillion) were the second largest in Europe in 2017. America's significant presence in the Netherlands reflects its strategic role as an export platform/distribution hub for U.S. firms doing business across the continent. To this point, more than half of U.S. affiliate sales in the Netherlands are for export, particularly within the EU.

Meanwhile, America's asset base in Germany (\$860 billion in 2017) was about 20% larger than its asset base in all of South America. America's combined asset base in Poland, the Czech Republic, and Hungary (roughly \$178 billion) was larger than U.S. assets in India (\$165 billion). America's assets in Ireland (\$1.7 trillion in 2017) were much larger than those in either France (\$408 billion) or Switzerland (\$1 trillion) and light years ahead of those in China (\$446 billion).

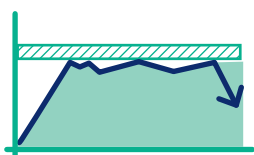
U.S. foreign assets in Europe **\$18 trillion** (2018 estimate)



3. Affiliate Employment

U.S. and European foreign affiliates are a major source of employment for the transatlantic workforce. Indeed, on a global basis, affiliates of both U.S. and European parents employ more workers in the United States and Europe than in other places in the world. Most foreign workers on the payrolls of U.S. foreign affiliates are employed in developed nations, notably Europe.

U.S. foreign affiliate employment in Europe has increased steadily since the turn of the century, with affiliate employment in Europe rising from 3.7 million workers in 2000 to 4.8 million workers in 2017, the last year of available data. That represents nearly a 30% increase. We estimate that U.S. foreign affiliates in Europe employed 4.9 million workers in 2018, a slight increase from the year before.



Chinese FDI in both the United States and Europe is plummeting due to trade tensions and scrutiny of investment

Table 3 The U.S. - European Employment Balance
Thousands of employees, 2018*

Country	European Affiliates of U.S. Companies	U.S. Affiliates of European Companies	Employment Balance
Austria	50.8	19.1	-31.7
Belgium	123.9	60.6	-63.3
Czech Republic	88.6	0.0	88.6
Denmark	41.2	40.8	-0.4
Finland	19.6	28.8	9.2
France	502.9	748.9	246.0
Germany	713.2	789.3	76.0
Greece	15.8	3.3	-12.6
Hungary	68.6	0.5	68.1
Ireland	132.1	300.8	168.7
Italy	237.0	77.4	-159.6
Luxembourg	28.3	13.5	-14.9
Netherlands	267.9	582.1	314.3
Norway	41.1	6.9	-34.2
Poland	209.0	0.8	-208.2
Portugal	33.6	0.7	-32.9
Romania	83.4	<50	-58.4
Spain	177.4	85.8	-91.6
Sweden	72.6	223.1	150.5
Switzerland	99.5	463.4	363.9
United Kingdom	1,494.6	1,246.8	-247.7
Europe	4,869.0	4,709.9	-159.1

Note: Employment balance "+" favors the United States

Source: Bureau of Economic Analysis.

*2018 Estimates. Majority-owned bank and non-bank affiliates.

While aggregate employment levels continue to rise modestly, manufacturing employment has plateaued since 2000. U.S. affiliate manufacturing employment totaled 1.9 million in 2000, on par with the levels of 2017. However, while the overall number has stayed roughly the same, the country composition has changed, with more investment shifting to lower-cost locales like Poland and Hungary versus high-cost economies like the UK and France. The largest employment declines were reported in the UK, with the total manufacturing work force falling from 431,000 in 2000 to 308,000 in 2017. U.S. manufacturing employment in France dropped from 249,000 to 195,000. U.S. manufacturing employment in Germany has registered far less decline – from 388,000 in 2000 to 376,000 in 2017. Poland continues to be a significant winner, with U.S. affiliate manufacturing employment growing more than 2.5 times, from 51,000 in 2000 to over 136,000 in 2017, and continuing on an upward trend.

Even given these changes, the manufacturing workforce of U.S. affiliates in Germany (376,000) in 2017 was greater than the number of manufacturing workers employed in Brazil (302,000) and India (211,000) – although well below China (764,000).

Roughly 35% of all manufacturing workers employed by U.S. foreign affiliates outside the United States in 2017 were based in Europe.

On a global basis, U.S. majority-owned affiliates (including banks and non-bank affiliates) employed 14.4 million workers in 2017, with a large share of these workers – roughly 33% – living in Europe. That share is down from 38% in 2009. That decline is in part a consequence of Europe's cyclical slowdown for some years, and in part due to the fact that U.S. overseas capacity is expanding at a faster pace in faster-growing emerging markets than slow-growth developed nations. Another factor at work: more and more U.S. firms are opting to stay home due to competitive wage and energy costs, as opposed to shipping more capacity abroad. Some digital innovations also mean companies can now do some things from home that they used to do abroad. Additionally, the sweeping overhaul of the U.S. corporate tax code in 2017, which significantly lowered America's tax rate relative to many in Europe, has spurred more investment to come home or stay in the United States – more on that in Chapter Five. That said, however, with the U.S. labor market the tightest in decades, U.S. firms are even more dependent on European workers to drive production and sales.

Most employees of U.S. affiliates in Europe live in the UK, Germany, or France. Meanwhile, U.S. majority-owned firms are, on balance, hiring more people in services activities than in manufacturing. The latter accounted for just 40% of total U.S. foreign affiliate employment in Europe in 2017. The key industry in terms of manufacturing employment was transportation equipment, with U.S. affiliates employing nearly 382,000 workers, followed by chemicals (295,000). Wholesale employment was among the largest sources of services-related employment, which includes employment in such activities as logistics, trade, insurance, and other related functions.

Although services employment among U.S. affiliates has grown at a faster pace than manufacturing employment over the past decade, U.S. affiliates employed more manufacturing workers in Europe in 2017 (1.9 million) than in 1990 (1.6 million). This reflects the EU enlargement process, which offered both U.S. and European companies greater access to more manufacturing workers, and the premium U.S. firms place on highly skilled manufacturing workers, with Europe one of the largest sources of such skilled talent in the world.

U.S. foreign affiliate employment in Europe



4.9 million
workers
(2018 estimate)

When it comes to affiliate employment, trends in the United States are similar to those in Europe. Despite stories on the continent about local European companies relocating to lower cost locales in eastern Europe and Asia, most foreign workers of European firms are employed in the United States. Based on the latest figures, European majority-owned foreign affiliates directly employed 4.6 million U.S. workers in 2017 – some 123,000 more workers than in 2016. In 2017, the top five European employers in the United States were the UK (1.2 million, up 15,200 from 2016), Germany (774,000, up 63,000 from 2016), France (734,000, up 10,000 from 2016), the Netherlands (571,000, up 500 from 2016), and Switzerland (454,000, up 8,000 from 2016). European firms employed roughly two-thirds of all U.S. workers on the payrolls of majority-owned foreign affiliates in 2017.

All told, the transatlantic workforce directly employed by U.S. and European foreign affiliates in 2017 was roughly 9.4 million strong, up roughly 2% from the year before. In 2018, modest gains in employment were most likely achieved on both sides of the pond, with employment levels in the U.S. most likely rising at a faster pace than in Europe. For 2018 we estimate that jobs numbers further improved, with U.S. affiliates based in Europe directly employing about 4.9 million European workers, and European affiliates based in the United States directly employing about 4.7 million Americans.

Employment growth, however, most likely softened last year as real growth and demand decelerated on both sides of the ocean. That said, as we have stressed in the past, these figures understate the employment effects of mutual investment flows, since these numbers are limited to direct employment, and do not account for indirect employment effects on nonequity arrangements such as strategic alliances, joint ventures, and other deals. Moreover, foreign employment figures do not include jobs supported by transatlantic trade flows. Trade-related employment is sizable in many U.S. states and many European nations.

In sum, direct and indirect employment remains quite large. We estimate that the transatlantic workforce numbers some 14-16 million workers, counting both

European foreign affiliate employment in the U.S.



4.7 million
workers
(2018 estimate)

direct affiliate employees as well as those whose jobs are supported by transatlantic trade. Europe is by far the most important source of “onshored” jobs in America, and the United States is by far the most important source of “onshored” jobs in Europe.

4. Research and Development (R&D) of Foreign Affiliates

The United States and Europe remain primary drivers of global R&D. Yet as the globalization of R&D has gathered pace, more and more global R&D expenditures are emanating from Asia in general, and China in particular. Beijing is unrelentingly focused on being a global leader in artificial intelligence, quantum computing, space exploration, cybersecurity, life sciences, electric vehicles, supercomputing, semiconductors, and 5G. The goal of Beijing’s 13th Five-Year Plan (2016-2020) is to make China an “innovative nation” by 2020; an “international innovation leader” by 2030; and a “world powerhouse of scientific and technological innovation” by 2050.

While governments and corporations are the main drivers of R&D spending, foreign affiliates of multinationals are also in the thick of things. In fact, foreign affiliate R&D has become more prominent over the past decades as firms seek to share development costs, spread risks, and tap into the intellectual talent of other nations. Alliances, cross-licensing of intellectual property, mergers and acquisitions, and other forms of cooperation have become more prevalent characteristics of the transatlantic economy. The digital economy has become a powerful engine of greater transatlantic R&D. The complexity of scientific and technological innovation is leading innovators to partner and share costs, find complementary expertise, gain access to different technologies and knowledge quickly, and collaborate as part of “open” innovation networks. Cross-border collaboration with foreign partners can range from a simple one-way transmission of information to highly interactive and formal arrangements. Developing new products, creating new processes, and driving more innovation – all of these activities result from more collaboration between foreign suppliers and U.S. and European firms.

Bilateral U.S.-EU flows in R&D are the most intense between any two international partners.

Table 4 The Top 20 R&D Spenders

2018	Company	R&D Spending		Country	Industry
		2018, \$U.S. Billions	Change from 2017		
1	Amazon	22.6	40.6%	United States	Retailing
2	Alphabet	16.2	16.3%	United States	Software and Services
3	Volkswagen	15.8	14.1%	Germany	Auto
4	Samsung	15.3	6.8%	South Korea	Technology Hardware
5	Intel	13.1	2.8%	United States	Semiconductors
6	Microsoft	12.3	-5.7%	United States	Software and Services
7	Apple	11.6	15.3%	United States	Technology Hardware
8	Roche Holding	10.8	-8.7%	Switzerland	Healthcare
9	Johnson & Johnson	10.6	16.0%	United States	Healthcare
10	Merck & Co.	10.2	0.8%	United States	Healthcare
11	Toyota	10.0	2.6%	Japan	Auto
12	Novartis	8.5	-11.1%	Switzerland	Healthcare
13	Ford	8.0	9.6%	United States	Auto
14	Facebook	7.8	31.0%	United States	Software and Services
15	Pfizer	7.7	-2.7%	United States	Healthcare
16	General Motors	7.3	-9.9%	United States	Auto
17	Daimler	7.1	-9.2%	Germany	Auto
18	Honda Motor	7.1	8.7%	Japan	Auto
19	Sanofi	6.6	5.8%	France	Healthcare
20	Siemens	6.1	4.9%	Germany	Capital Goods
		214.5	7.3%		

Source: Bloomberg data, Capital IQ data, Strategy& analysis.

In 2017, the last year of available data, U.S. affiliates spent \$33 billion on research and development in Europe, up slightly from the prior year. On a global basis, Europe accounted for roughly 58% of total U.S. R&D abroad in 2017, down slightly from 2016. R&D expenditures by U.S. affiliates were the greatest in Germany (\$8.1 billion), the UK (\$6.4 billion), Switzerland (\$4.7 billion), Ireland (\$3.4 billion), France (\$2 billion), the Netherlands, and Belgium (\$1.4 billion each). These seven nations accounted for roughly 84% of U.S. spending on R&D in Europe in 2017.

In the United States, meanwhile, expenditures on R&D performed by majority-owned foreign affiliates totaled \$62.6 billion in 2017. As in previous years, a sizable share of this R&D spending – \$44.0 billion – emanated from world-class leaders from Europe, given their interest in America's highly skilled labor

force and world-class university system. Most of this investment by European firms took place in such research-intensive sectors as chemicals, autos and information technology products and services.



R&D spending of foreign affiliates (2017)

\$33 billion
U.S. in Europe

\$44 billion
Europe in the U.S.

In 2017, R&D spending by European affiliates accounted for 70% of total foreign R&D spending in the United States.

On a country basis, Swiss-owned affiliates were the largest foreign source of R&D in the United States in 2017, spending some \$10 billion. Swiss firms accounted for nearly a quarter of the European total. British firms accounted for the second largest percentage of affiliate expenditures, with a 20% share in 2017. Germany's share was close, at 19.5%, followed by France, 12.3%. As Table 4 highlights, some of the world's most innovative companies who invest the most in R&D are domiciled in the U.S. and Europe.

5. Intra-firm Trade of Foreign Affiliates

While cross-border trade is a secondary means of delivery for goods and services across the Atlantic, the modes of delivery – affiliate sales and trade – should not be viewed independently. They are more complements than substitutes, since foreign investment and affiliate sales increasingly drive cross-border trade flows. Indeed, a substantial share of transatlantic trade is considered intra-firm or related-party trade, which is cross-border trade that stays within the ambit of the company. Intra-firm or related party-trade occurs when BMW or Siemens of Germany sends parts to BMW of South Carolina or Siemens of North Carolina; when Lafarge or Michelin send intermediate components to their Midwest plants, or when Caterpillar or 3M ships components from Illinois or Minnesota to affiliates in Poland or the UK.

The tight linkages between European parent companies and their U.S. affiliates are reflected in the fact that roughly 63% of U.S. imports from the European Union consisted of related-party trade in 2018, the last year of available data. That is much higher than related-party imports from the Asia Pacific region (38%) and well above the global average (49%). The percentage was even higher in the case of Ireland (88%) and Germany (70%).

Meanwhile, over 37% of U.S. exports to Europe in 2018 represented related-party trade, but the percentage is much higher for some nations. For instance, more than half of total U.S. exports to the Netherlands (56.6%) were classified as related-party trade. The comparable figure for Germany was 35% and 30% for France.

Table 5 Related Party Trade, 2018

Country	U.S. Imports: "Related Party Trade," as % of Total	U.S. Exports: "Related Party Trade," as % of Total
European Union	62.5	37.3
Germany	69.5	35.1
France	50.0	30.1
Ireland	88.1	32.1
Netherlands	64.8	56.6
United Kingdom	53.3	31.9

Source: U.S. Census Bureau.

6. Foreign Affiliate Sales

U.S. majority-owned foreign affiliate sales on a global basis (goods and services) totaled an estimated \$6.7 trillion in 2018. Total U.S. exports, in contrast, were \$2.5 trillion in 2018, or roughly 38% of foreign affiliate sales. This gap underscores the primacy of foreign affiliate sales over U.S. exports. As we have noted many times before, one of the best kept secrets in Washington is how U.S. firms actually deliver goods and services to foreign customers.

As usual, Europe accounted for the bulk of U.S. affiliate sales in 2018. We estimate that U.S. foreign affiliate sales in Europe totaled \$3.2 trillion, up roughly 7% from the prior year. U.S. affiliate sales in Europe, by our estimates, amounted for roughly half of the global total.

Reflecting the primacy of Europe when it comes to U.S. foreign affiliate sales, sales of U.S. affiliates in Europe were roughly 70% larger than the comparable figures for the entire Asian region in 2017 the last year of available data. Affiliate sales in the UK (\$643 billion) were double total sales in South America. Sales in Germany (\$339 billion) were more than double the combined sales in Africa and the Middle East.

Affiliate sales are also the primary means by which European firms deliver goods and services to customers in the United States. In 2018, for instance, we estimate that majority-owned European affiliate sales in the United States (\$2.4 trillion) were more than triple U.S. imports from Europe. By country, sales of British firms were the largest (\$543 billion) in 2017, followed by Germany (\$501 billion), and the Netherlands (\$350 billion). For virtually all countries in Europe, foreign affiliate sales were easily in excess of their exports to the U.S. in 2017.



Foreign affiliate sales

(2018 estimate)

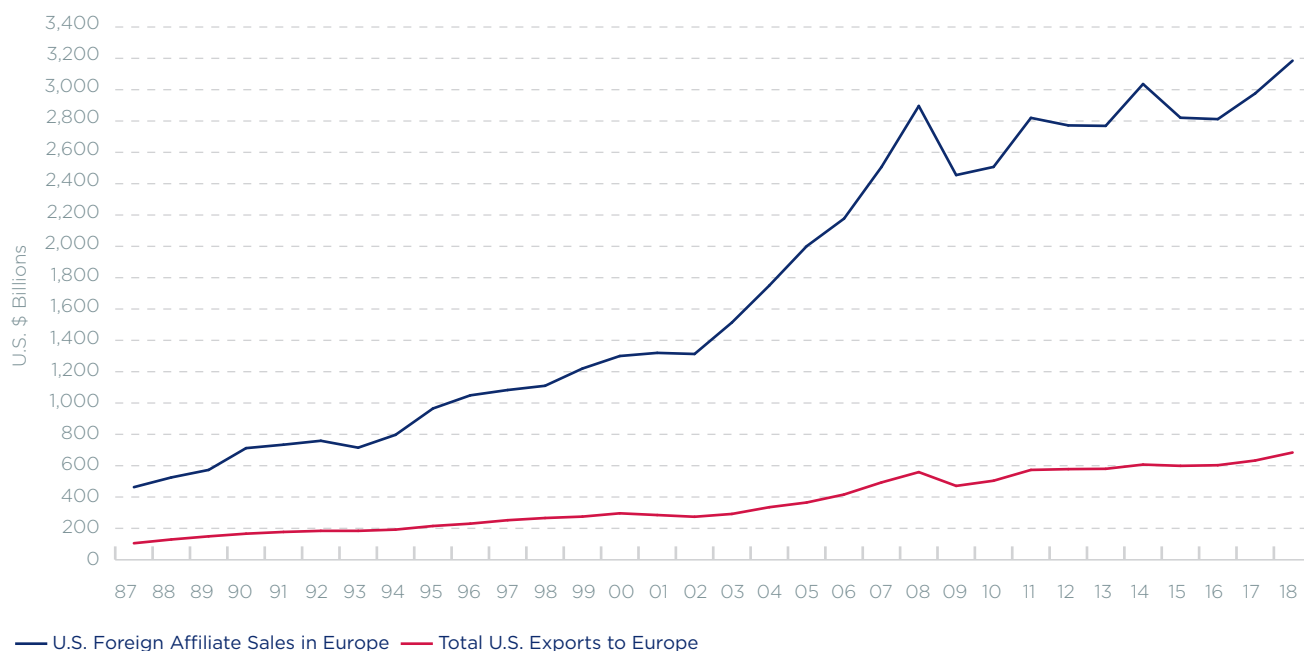
\$3.2 trillion

U.S. in Europe

\$2.4 trillion

Europe in the U.S.

Table 6 Sales of U.S. Affiliates in Europe vs. U.S. Exports to Europe

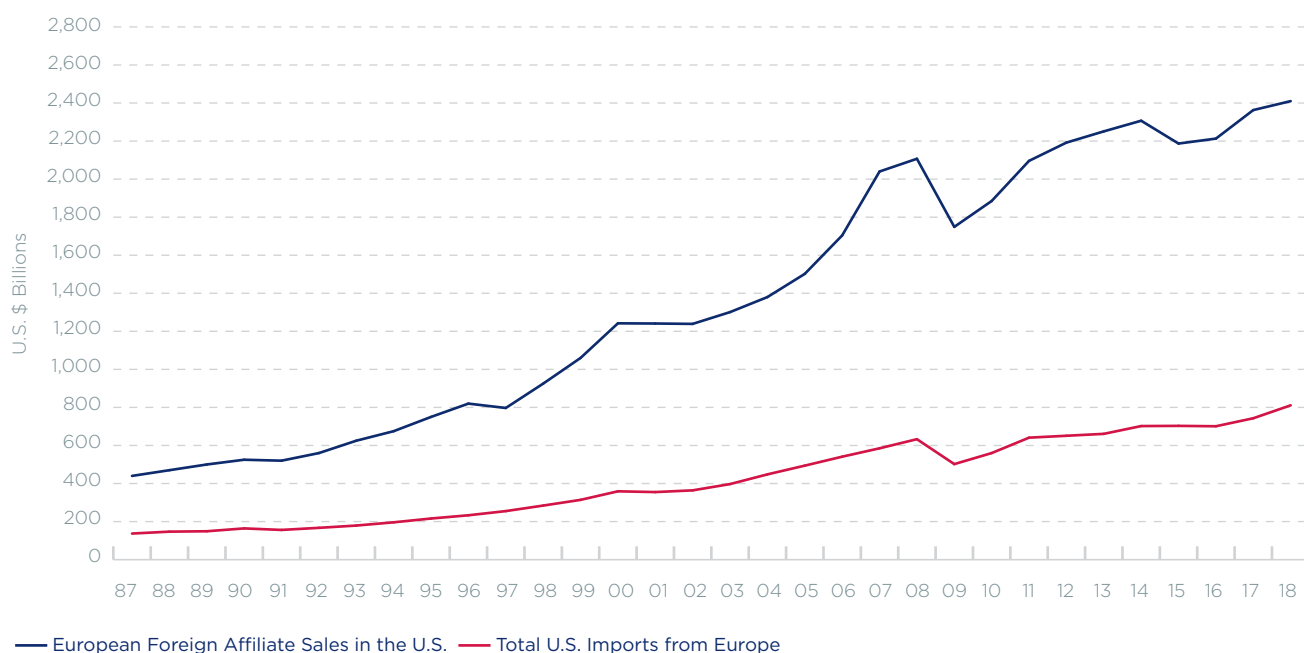


Source: Bureau of Economic Analysis.

Majority-owned non-bank affiliates data: 1987 - 2008. Majority-owned bank and non-bank affiliates: 2009 - 2018.

Foreign Affiliate Sales: Estimates for 2018.

Table 7 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 - 2018.

Foreign Affiliate Sales: Estimates for 2018.



Foreign affiliate profits (2019)

\$295 billion
U.S. in Europe

\$140 billion
Europe in the U.S.

Europe accounted for roughly 54% of U.S. global foreign affiliate income in the first nine months of 2019. Europe, in other words, remains a very important market to U.S. multinationals. As a footnote, we define Europe here in very broad terms, including not only the EU28 but also Norway, Switzerland, Russia, and smaller markets in Central and Eastern Europe.

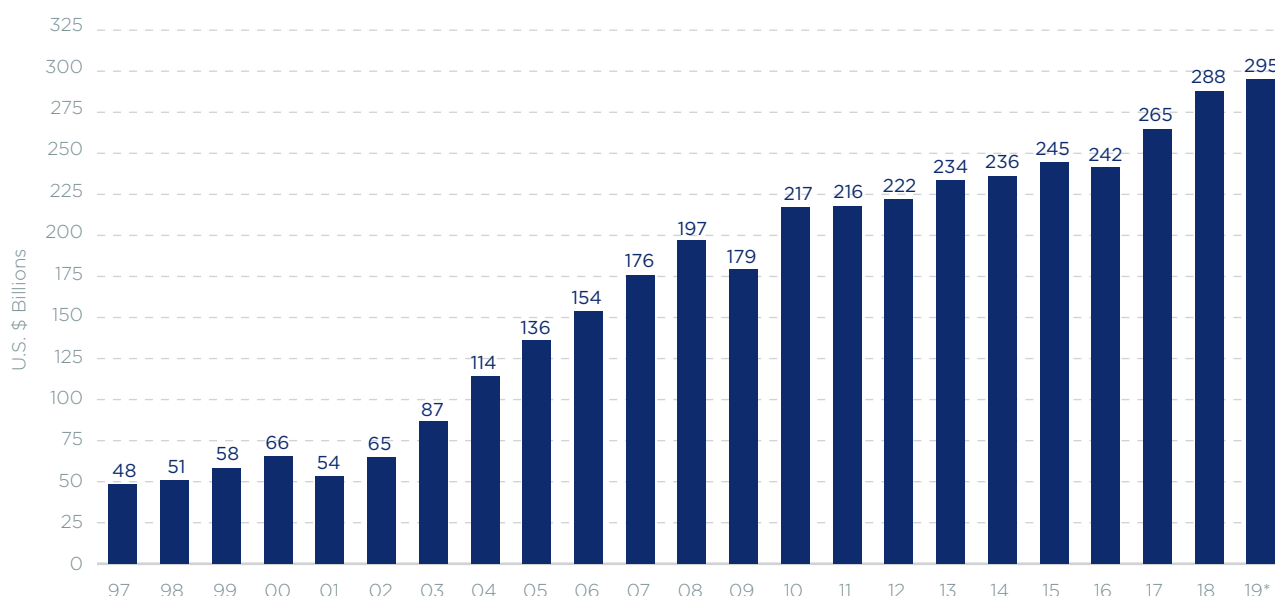
On comparative basis, U.S. affiliate income from Europe is simply staggering, with foreign affiliate income in Europe – \$217 billion in the first nine months of 2019 – about 1.5 times more than combined U.S. affiliate income from Latin America and Asia (each with \$76 billion in profits). It is interesting to note that combined U.S. affiliate income from China and India in 2018 (\$18 billion), the last year of full data, was a fraction of what U.S. affiliates earned/reported in either the Netherlands (\$87 billion), Ireland (\$53 billion), or the United Kingdom (\$47 billion).

Still, there is little doubt that China, India, and Brazil are becoming more important earnings engines for U.S. firms. To this point, in the first nine months of 2019, U.S. affiliate income in China alone (\$9.9 billion) was well in excess of affiliate income in Germany (\$4.1 billion), France (\$2.5 billion), and Spain (\$2.9 billion). U.S. affiliates in India earned \$3.7 billion in the January-September period, well more than that earned in many European countries.

7. Foreign Affiliate Profits

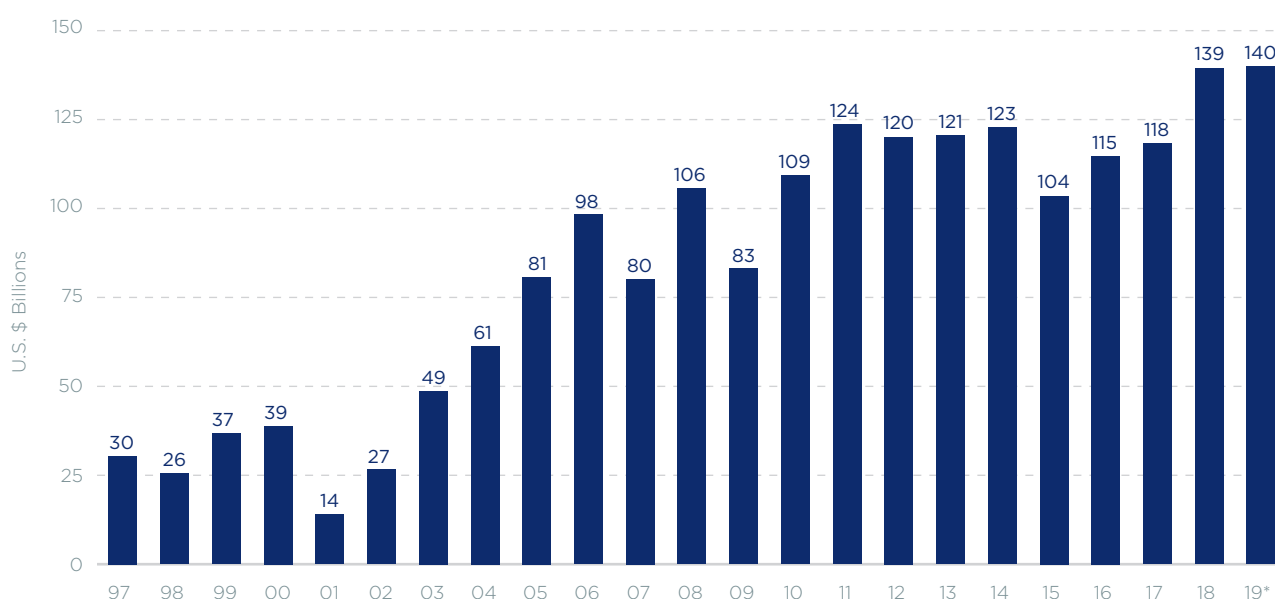
Transatlantic profits have rebounded from the depressed levels of 2009, when the global financial crisis and ensuing recession triggered a sharp downturn in affiliate income/earnings on both sides of the pond. In 2018, U.S. affiliate income in Europe rose to a record \$288 billion, and by another 2.5% in 2019 by our estimate, to a record \$295 billion. The figure for 2019 was more than 60% larger than the depressed levels of 2009, when affiliate income earned in Europe plunged to \$179 billion. Meanwhile, European affiliate income earned in the United States in 2019 was also at record levels; our estimate, affiliate income totaled \$140 billion, up slightly from the prior year.

Table 8 U.S. Earnings from Europe Hitting New Highs (U.S. foreign affiliate income from Europe)



Source: Bureau of Economic Analysis.

*Data for 2019 is authors' estimate.

Table 9 Record Annual Earnings by European Affiliates in the U.S. (Foreign affiliate income earned in the U.S.)

Source: Bureau of Economic Analysis.

*Data for 2019 is authors' estimate.

All that said, we see rising U.S. affiliate earnings from the emerging markets as a complement, not a substitute, to earnings from Europe. The latter very much remains a key source of prosperity for corporate America.

Similarly, the United States remains the most important market in the world in terms of earnings for many European firms. Even though the income of European affiliates in the United States in the first nine months of 2019 was basically flat from the same period a year earlier, for the full year we estimate income of European affiliates in the U.S. hit a record \$140 billion.

8. Transatlantic Services

Services generate more than two-thirds of global economic output, attract over two-thirds of foreign direct investment, and provide four-fifths of all jobs in developed countries. Services are the fastest growing segment of global trade; the WTO forecasts that services could account for up to one-third of world trade by 2040 – a 50% increase in the share of services in global trade in just two decades.¹

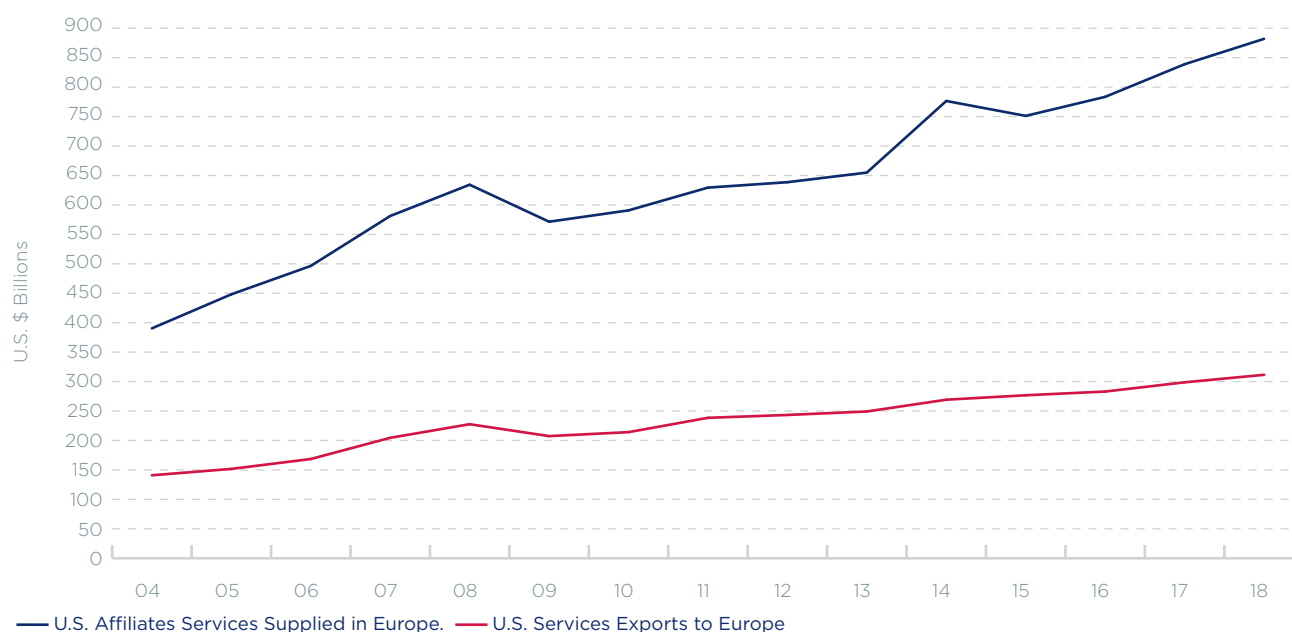
The United States and Europe are the largest services economies in the world. They are each other's largest services market, and dense transatlantic services linkages mean that the transatlantic services economy is the geo-economic base for the global competitiveness of U.S. and European services companies.

Transatlantic ties in services – both in trade and investment – are quite large and have become even

more intertwined over the past decade. Transatlantic linkages continue to deepen in insurance, education, telecommunications, transport, utilities, advertising, and computer and business services.

On a regional basis, Europe accounted for 38% of total U.S. services exports and for 42% of total U.S. services imports in 2018. Four out of the top ten export markets for U.S. services in 2018 were in Europe. The UK ranked first, followed by Ireland (ranked 4th), Switzerland (6th), and Germany (7th). Of the top ten services providers to the United States in 2018, five were European states, with the UK ranked first, Germany fourth, Switzerland seventh, Ireland eighth, and France ninth. In 2018, the United States registered a \$55 billion trade surplus in services with the EU, versus a \$170 billion trade deficit in goods. Using a broader definition of Europe, which includes non-EU countries, the U.S. runs a slightly larger surplus in services (\$75 billion) and a larger deficit in goods (\$202 billion).²

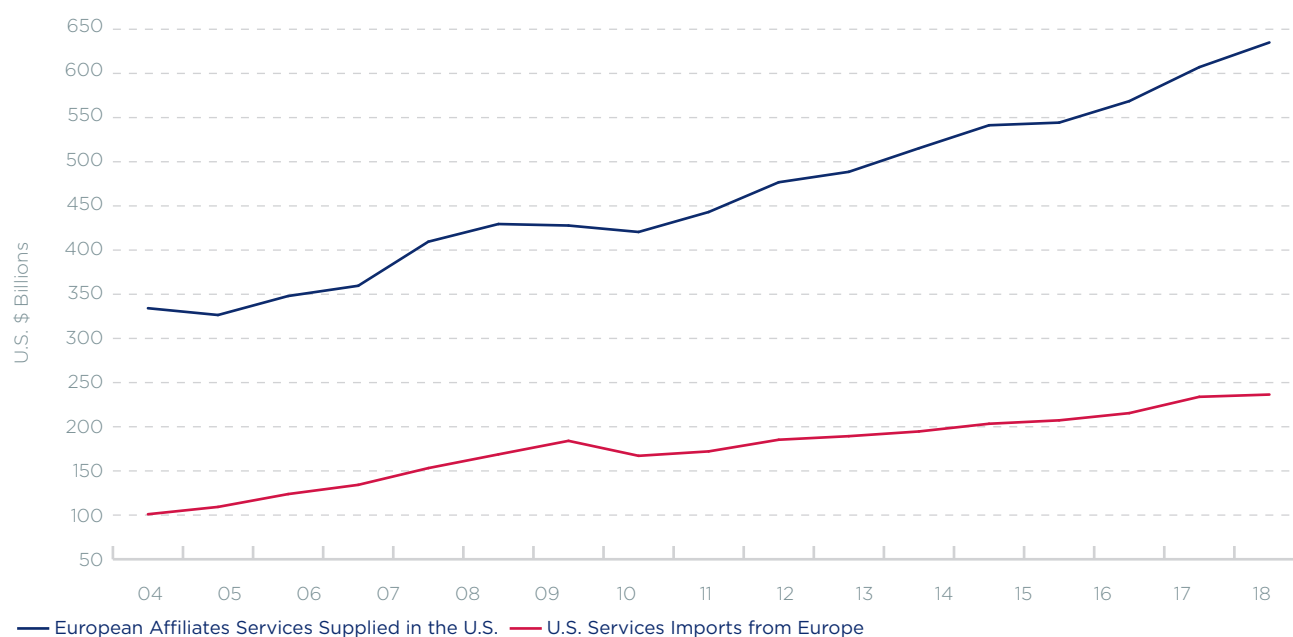
U.S. services exports to Europe reached a record \$312 billion in 2018, up 50% from the cyclical low of 2009. Services exports (or receipts) have been fueled by a number of services-related activities such as travel, passenger fares, education and financial services. In terms of transport, the top five export markets in 2018, in ranked order, were Japan, the UK, Canada, China, and Germany. The UK ranked as the largest market for exports of insurance services; the UK and Luxembourg also ranked in the top five in financial services. Ireland was the top export market for U.S. trade in intellectual property – or charges or fees for the use of intellectual property rights, representing

Table 10 U.S. - Europe Services Linkages

— U.S. Affiliates Services Supplied in Europe. — U.S. Services Exports to Europe

Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in Europe estimates for 2018.

Table 11 Europe - U.S. Services Linkages

— European Affiliates Services Supplied in the U.S. — U.S. Services Imports from Europe

Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in the U.S. estimates for 2018

12% of total receipts. The UK ranked second in telecommunications, computer and information services, after Brazil. As for “other business service exports” or activities like management consulting and R&D, Ireland ranked number one in 2018, followed by Switzerland.

As for U.S. service imports from Europe, figures for 2018 were at all-time highs. U.S. services imports from Europe totaled \$236 billion, up over 40% from the depressed levels of 2009. The UK, Germany,

Switzerland, Ireland, France, and Italy all rank as top services exporters to the United States.

Trade figures, while significant, do not do full justice to the importance of the transatlantic services economy. Transatlantic foreign affiliate sales of services are much deeper and thicker than traditional trade figures suggest. Indeed, sales of affiliates have exploded on both sides of the Atlantic over the past few decades thanks to falling communication costs and the rise of the digital economy. Affiliate sales

of services have not only supplemented trade in services, they have become the overwhelming mode of delivery in a rather short period of time. Worldwide affiliate sales of U.S. services almost doubled in the years from 2005 to 2017, exceeding \$1 trillion for the first time in 2007. In 2017, the last year of full data, U.S. affiliate services sales (\$1.6 trillion) were roughly double the level of U.S. services exports (\$827 billion).

Sales of services of U.S. foreign affiliates in Europe rose 7% in 2017 to \$839 billion, and have risen by more than 45% since 2009, when services sales plunged on account of the transatlantic recession. U.S. services exports to Europe in 2017 totaled \$299 billion, well below sales of services by affiliates. In other words, like goods, U.S. firms primarily deliver services in Europe (and vice versa) via their foreign affiliates, rather than by trade.

The UK accounted for roughly 30% of all U.S. affiliate services sales in Europe; affiliate sales totaled \$247 billion in the UK, a figure greater than total affiliate sales in South and Central America (\$122 billion), Africa (\$14 billion), or the Middle East (\$21 billion). Affiliate sales of services in Ireland remain quite large – \$142 billion in 2017 – and reflect strong U.S.-Irish foreign investment ties with leading U.S. internet, software, and social media leaders. Europe accounted for roughly 54% of total global U.S. affiliate service sales.

We estimate that sales of services of U.S. affiliates in Europe rose by around 5%, to \$882 billion in 2018. U.S. services exports to Europe for the same year were \$312 billion.

U.S. affiliate sales of services in Europe continue to exceed sales of services by U.S. affiliates of European firms. In 2017, the last year of complete data, European affiliate services sales in the United States totaled \$607 billion, about 28% below comparable sales of U.S. affiliates in Europe. That said, European affiliates are the key provider of affiliate services in the United States. Foreign affiliate sales of services in the U.S. totaled \$1.1 trillion in 2017, with European firms accounting for 56% of the total. Within Europe, British affiliates lead in terms of affiliate sales of services in the United States (\$153 billion), followed closely by Germany (\$148 billion).

Table 12 America's FDI Roots in Europe (Billions of \$)

Industry	U.S. FDI to Europe	Europe's % of Total U.S. FDI
European Total, all industries	3,610	61%
Manufacturing	456	50%

Note: Historic-cost basis, 2018.

Source: Bureau of Economic Analysis.

Table 13 Europe's FDI Roots in the U.S. (Billions of \$)

Industry	U.S. FDI from Europe	Europe's % of Total U.S. FDI
Total from Europe, all industries	2,957	68%
Manufacturing	1,366	77%

Note: Historic-cost basis, 2018.

Source: Bureau of Economic Analysis.

We estimate that European affiliate services sales in the United States totaled \$635 billion in 2018, well above U.S. services imports from Europe (\$236 billion) in the same year. The difference between affiliate sales and services imports reflects the ever-widening presence of European service leaders in the U.S. economy.

In the end, the U.S. and Europe each owe a good part of their competitive position in services globally to deep transatlantic connections in services industries provided by mutual investment flows. A good share of U.S. services exports to the world are generated by European companies based in the United States, just as a good share of European services exports to the world are generated by U.S. companies based in Europe.

These eight indices convey a more complex and complete picture of U.S.-European engagement than trade figures alone. Transatlantic commerce goes well beyond trade. Foreign direct investment and foreign affiliate sales, not trade, represent the backbone of the transatlantic economy. The eight variables just highlighted underscore the depth and breadth of the transatlantic commercial relationship.



Foreign direct investment and foreign affiliate sales, not trade, represent the **backbone of the transatlantic economy**

Endnotes

- 1 WTO, *World Trade Report 2019: The future of services trade*, https://www.wto.org/english/res_e/booksp_e/00_wtr19_e.pdf.
- 2 See Notes on Terms, Data and Sources in the back of the study for complete definition of broader Europe.