2

Jobs, Trade and Investment: Cyclical Weakness, Structural Strength

Share of world GDP

30%

U.S. and EU27 + UK

31%

Regional Comprehensive Economic Partnership (RCEP)

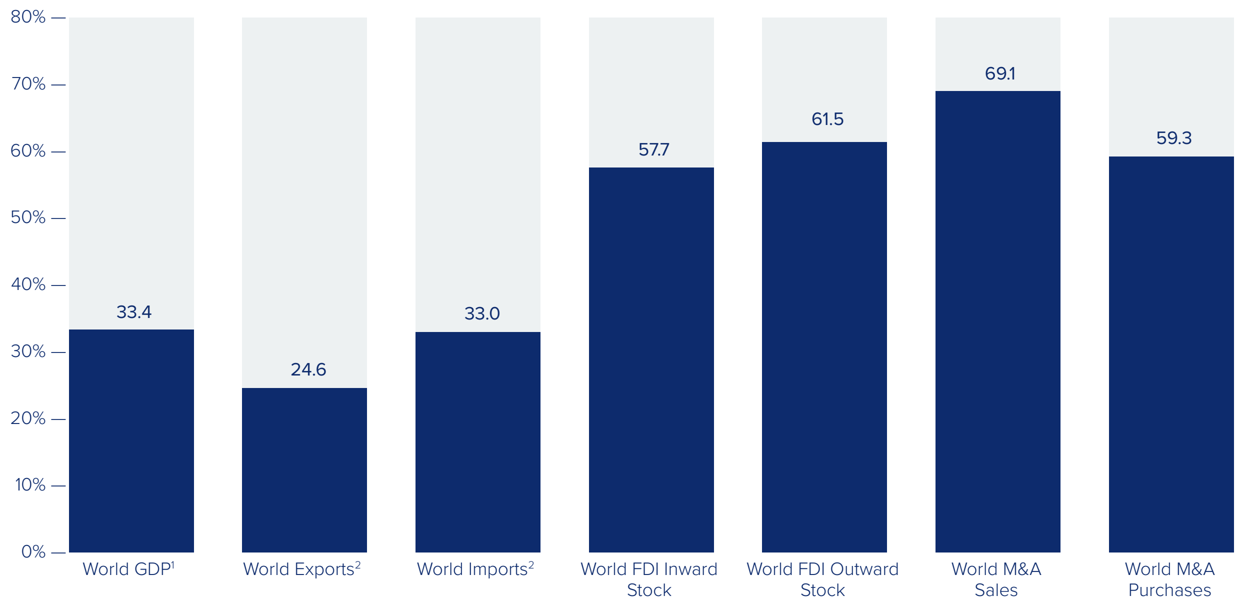
Lenin once quipped that "there are decades where nothing happens; and there are weeks where decades happen." So it is with the 2020s. While barely at the half mark of this decade, the world economy has been buffeted by a global pandemic, Russia's stunning war of aggression in the heart of Europe, an Israel-Hamas conflict that could engulf the broader Middle East, ongoing violence across large swathes of Africa, massive movements of displaced peoples, major disruptions to flows of goods, services, and commodities, and a spike in inflationary pressures reminiscent of the 1970s. Rarely have the challenges seemed so acute.

Compounding matters, the contours of globalization are shifting. Even before this decade began, the world economy was being splintered by great power rivalries, weaponization of interdependencies, rising barriers to trade and investment, resource protectionism, and calls for firms to "reshore," "near-shore," or "friend-shore" production.

Globalization is not dead, but it is being refined and reconfigured. U.S. and European multinationals confront a more challenging environment. Firms are increasingly focused on building more resiliency into their supply chains and securing critical inputs to production. This doesn't mean they are turning their backs on the world. Instead, they are diversifying their sourcing and reinforcing the foundations of their success. Most are derisking rather than decoupling, as we discuss in Chapter 3. And for many, the dense transatlantic linkages they have built over decades are an anchor in the storm.

The two sides of the North Atlantic remain deeply intertwined and embedded in each other's markets. This is not likely to change any time soon, given the deep and entangled commercial ties that link the transatlantic economy, and the fact that shareholders and stakeholders on both sides of the pond directly benefit from deep transatlantic integration. The fact that the United States and Europe are each embroiled in increasingly contentious commercial and geopolitical tensions with Russia and China also suggests transatlantic cooperation will endure. And the post-pandemic world of tighter energy supplies and tighter labor markets portends thicker transatlantic ties.

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



Sources: UN, IMF, figures for 2022.Transatlantic economy measured as U.S., EU, UK, Norway, Switzerland and Iceland.
1. Based on PPP estimates.
2. Excluding intra-EU, U.K., Norway, Switzerland and Iceland trade.

The two sides of the North Atlantic remain deeply intertwined and embedded in each other's markets.

The transatlantic economy remains a central pillar of the global economy. The combined output of the United States and the EU 27 plus UK accounted for roughly 30% of world GDP in terms of purchasing power parity in 2023. That is higher than the combined output of China and India (26% of world GDP) and on par with the combined output of the Regional Comprehensive Economic Partnership (RCEP) in Asia of 31% of GDP.

The transatlantic economy is not only larger than the twin giants of Asia but also significantly wealthier. And because wealth matters, it is little wonder that consumers in the United States and the EU easily outspend their counterparts in China and India. The transatlantic consumer accounted for 51% of global personal consumption in 2022, the last year of available data, versus a combined share of just 15.7% for China and India. Per capita incomes – a key metric of a nation's wealth – matter and on this score, it is no contest. The United States (with an estimated per capita income of roughly $80,000 in purchasing power parity terms in 2022) and the European Union (est. $57,000) are far wealthier than China ($23,000) and India ($9,000).

In addition to the above, 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 (M&A) activity. Taken together, U.S. and European goods exports to the world (excluding intra-EU trade) accounted for roughly 20% of global goods exports in 2022, the last year of complete data. But the two parties accounted for 65% of global inward stock of foreign direct investment (FDI) and 65% 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. Over 70% of M&A purchases are by U.S. and European companies.

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 $6.5 trillion in 2022, easily ranking as the most integrated commercial partnership in the world, on account of the thick investment ties between the two parties. Below, we further dissect the activities of foreign affiliates on both sides of the pond.

Beyond Europe, only Canada and Japan have a significant economic presence in the United States.

The Ties That Bind – Quantifying the Transatlantic Economy

We have long made the case that when it comes to global commerce, traditional trade statistics are incomplete and misguided metrics when measuring the level of global engagement between two parties. Global commerce beats to the tune of foreign direct investment and affiliate sales, not cross-border trade. Hence, 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 $800 billion in 2022) and of European foreign affiliates in the United States (estimated at $730 billion) was greater than the total gross domestic product of most countries. Combined, transatlantic affiliate output – more than $1.5 trillion – was larger than the total output of such countries as Mexico, the Netherlands, or Indonesia.

Affiliate output has rebounded from the depressed levels of 2020, when transatlantic activity came to a near standstill due to the pandemic. European affiliate output in the United States has continued to rise, owing to stronger-than-expected growth in the U.S., with European affiliates in the United States operating in one of the most dynamic

Total output of foreign affiliates

$800 billion

U.S. affiliates in Europe (2022 estimate)

$730 billion

European affiliates in the U.S. (2022 estimate)

U.S. foreign assets in Europe (2021)

$18.6 trillion

64%

of total U.S. foreign assets globally

economies in the world. On the other side of the pond, growth across Europe has slowed over the past few years, but U.S. firms have continued to expand and profit from their affiliate activities.

On a global basis, the aggregate output of U.S. foreign affiliates was around $1.6 trillion in 2022, with Europe (broadly defined) accounting for around half of the total. According to the U.S. Bureau of Economic Analysis (BEA), U.S. affiliate output in Europe ($771 billion) in 2021 was 76% greater than affiliate output in the entire Asia-Pacific region ($437 billion).

In the United States, meanwhile, European affiliates are major economic producers, with British and German firms of notable importance.

In 2021, the most recent year for which complete data is available, British companies' output in the U.S. reached $172 billion. That represents about one-quarter of the European total. For the same year, output from German affiliates operating in the United States totaled $135 billion, or nearly 20% of the European total. Off the back of strong U.S. economic growth in 2022, we estimate that output of both British and German affiliates in the U.S. rose by 5%, with the former totaling an estimated $180 billion in 2022, and the latter $140 billion.

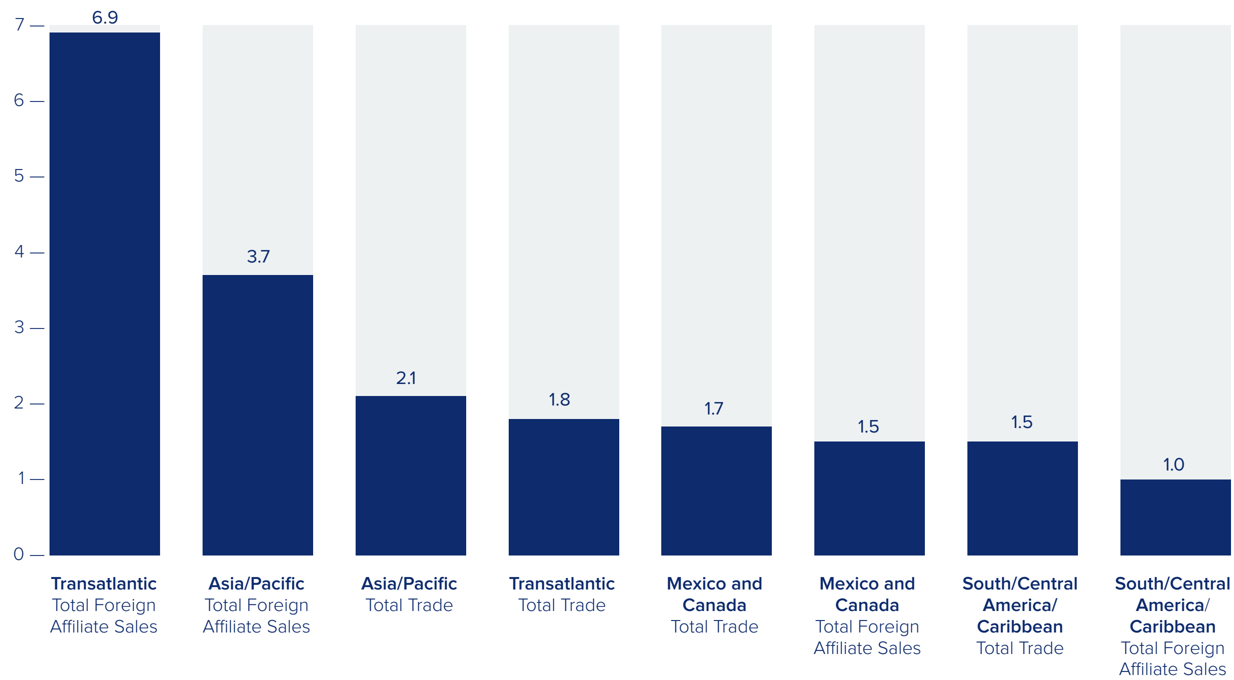
In 2021, the last year of available data, European affiliates in the United States accounted for nearly 61% of the roughly $1.2 trillion that affiliates of foreign multinationals contributed overall to U.S. aggregate production.

Beyond Europe, only Canadian and Japanese investors have any real economic presence in the United States. Japanese affiliate output totaled nearly $159 billion in 2021, the last year of complete data, while Canadian affiliate output totaled $136 billion. Foreign direct investment from China in the United States over the past few years has plummeted due to bilateral commercial tensions and tighter U.S. scrutiny of such investments. Chinese affiliate output in the U.S. totaled just $15 billion in 2021, less than that of Sweden ($21 billion).

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 BEA, U.S. foreign assets in Europe totaled $18.6 trillion in 2021, representing roughly 64% of the global total.

Table 2. America's Major Commercial Arteries ($Trillions)



Foreign Affiliate Sales: Author's estimates for 2022. Total Trade: Data for goods & services, 2022. South/Central America and Caribbean includes Mexico.
Source: Bureau of Economic Analysis.

For 2022, we estimate that U.S. foreign assets in Europe rose 4% to $19.3 trillion as the continent emerged from the pandemic. The bulk of U.S. assets in Europe was in the United Kingdom: $6.9 trillion in 2021, the last year of available data, or around 22% of the global total.

U.S. assets in the Netherlands (around $3.1 trillion) were the second largest in Europe in 2021. 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 topped $1.2 trillion in 2021, more than a third larger than its asset base in all South America. America's asset base in Poland, the Czech Republic and Hungary (roughly $225 billion) was greater than corporate America's assets in South Korea ($161 billion). America's assets in Ireland ($2 trillion in 2021) were light years ahead of those in China ($527 billion).

Europe's stakes in the United States are also sizable and significant. Total assets of European affiliates in the United States were valued at $9.3 trillion in 2022, by our estimation. UK firms ranked first, followed by German, Swiss and French companies. In 2021, the last year of available data, European assets in the United States accounted for over 51% of all foreign owned assets in the United States.

3. Affiliate Employment

U.S. and European foreign affiliates are a major source of employment for the general 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 countries, notably in 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 4.6 million workers in 2021, the last full year of available data. That represents a near 25% increase. We estimate that U.S. foreign affiliates in Europe employed over 4.7 million workers in 2022.

Of the overall total, U.S. affiliate employment in manufacturing in Europe totaled 1.8 million workers in 2021, a modest decline from 1.9 million in 2000. 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 U.S. affiliate manufacturing workforce falling from 431,000 in 2000 to 284,000 in 2021. U.S. manufacturing employment in France dropped from 249,000 to 182,000, while a smaller decline from 388,000 to 362,000 was reported in Germany between 2000 and 2021. In terms of net gains in manufacturing jobs, Poland has been a significant winner, with U.S. affiliate manufacturing employment growing almost three times, from 51,000 in 2000 to over 136,000 in 2021.

Table 3. Transatlantic Jobs
(Thousands of employees, 2022*)

Country	U.S. Companies in Europe	European Companies in the U.S.
Austria	30.3	39.7
Belgium	121.9	78.6
Czech Republic	76.1	3.2
Denmark	39.5	50.0
Finland	22.6	35.4
France	502.7	767.1
Germany	667.2	955.9
Greece	19.3	3.8
Hungary	60.2	0.2
Ireland	165.4	365.9
Italy	244.6	103.3
Luxembourg	29.7	46.0
Netherlands	240.4	624.2
Norway	38.7	7.5
Poland	227.3	1.2
Portugal	35.2	0.9
Spain	187.2	85.8
Sweden	65.1	216.0
Switzerland	99.4	393.6
United Kingdom	1,374.5	1,265.6
Europe	**4,749.0**	**5,066.2**

Source: Bureau of Economic Analysis.
**2022 Estimates. Majority-owned bank and non-bank affiliates.*

U.S. foreign affiliate employment in Europe
(2022 estimate)
4.7 million
workers

European foreign affiliate employment in the U.S.
(2022 estimate)
5 million
workers

Roughly 33% of all manufacturing workers employed by U.S. foreign affiliates outside the United States in 2021 were based in Europe.

On a global basis, U.S. majority-owned affiliates (including banks and non-bank affiliates) employed 13.8 million workers in 2021, with the bulk of these workers – roughly 33% – toiling in Europe. That share is down from 41% in 2009. That decline is in part a consequence of Europe's cyclical slowdown for some years, and in part because U.S. overseas capacity is expanding at a faster pace in faster-growing emerging markets than slower-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. 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. So too have the massive U.S. fiscal programs that incentives and subsidies for semiconductors, clean energy, and infrastructure production. More on those in Chapters 3, 4 and 6. That said, however, with the U.S. labor market at its 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, and France. Meanwhile, U.S. majority-owned firms are on balance hiring more people in services activities than in manufacturing. The latter accounted for 38% of total U.S. foreign affiliate employment in Europe in 2021. The key industry in terms of manufacturing employment was transportation equipment, with U.S. affiliates employing nearly 312,000 workers, followed by chemicals (262,000). 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, according to our estimates U.S. affiliates employed slightly more manufacturing workers in Europe in 2022 (1.8 million) than in 1990 (1.6 million). This reflects the EU enlargement process, and hence 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 in the world.

When it comes to affiliate employment, trends in the United States are like 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 4.9 million U.S. workers in 2021. We estimate the number to have reached 5 million in 2022. The top five European employers in the United States were firms from the UK (1.2 million jobs), Germany (924,000), France (741,000), the Netherlands (603,000) and Switzerland (380,000). European firms employed roughly two-thirds of all U.S. workers on the payrolls of majority-owned foreign affiliates in 2021.

In the aggregate, by our estimation, the transatlantic workforce directly employed by U.S. and European foreign affiliates totaled close to 10 million workers in 2022.

One reminder: 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 the end, direct and indirect employment remains quite large. We estimate that the transatlantic workforce numbers more than 16 million workers, counting both 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

This decade has seen an acceleration in the globalization of R&D. A significant portion of global R&D expenditures now emanates from Asia, particularly China. Beijing is unrelentingly focused on being a global leader in artificial intelligence, quantum computing, space exploration, cyber security, life sciences, electric vehicles, supercomputing, semiconductors and 5G wireless devices. Beijing's long-term goal is to become 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 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 these activities result from more collaboration between foreign suppliers and U.S. and European firms. And all this collaboration, regardless of sector or industry, is dependent on the ability to transfer data across borders, as we discuss in Chapter 5.

Transatlantic flows in R&D are the most intense between any two international partners.

Table 4. Top 20 R&D Spenders

		R&D Spending			
Rank	Company	2022 (€Billions)	Change from 2021 (%)	Country	Industry
1	Alphabet	37.0	25.2	U.S.	Software & Computer Services
2	Meta	31.5	36.4	U.S.	Software & Computer Services
3	Microsoft	25.5	10.9	U.S.	Software & Computer Services
4	Apple	24.6	19.8	U.S.	Technology Hardware & Equipment
5	Huawei Investment & Holding	20.9	10.6	China	Technology Hardware & Equipment
6	Volkswagen	18.9	21.3	Germany	Automobiles & Parts
7	Samsung Electronics	18.4	10.3	South Korea	Electronic & Electrical Equipment
8	Intel	16.4	15.4	U.S.	Technology Hardware & Equipment
9	Roche	14.3	2.5	Switzerland	Pharmaceuticals & Biotechnology
10	Johnson & Johnson	13.7	-0.8	U.S.	Pharmaceuticals & Biotechnology
11	Merck Us	11.1	14.2	U.S.	Pharmaceuticals & Biotechnology
12	Pfizer	10.7	-1.5	U.S.	Pharmaceuticals & Biotechnology
13	General Motors	9.2	24.1	U.S.	Automobiles & Parts
14	Astrazeneca	8.9	18.5	UK	Pharmaceuticals & Biotechnology
15	Bristol-Myers Squibb	8.8	-10.5	U.S.	Pharmaceuticals & Biotechnology
16	Toyota Motor	8.8	10.4	Japan	Automobiles & Parts
17	Novartis	8.5	0.5	Switzerland	Pharmaceuticals & Biotechnology
18	Mercedes-Benz	8.5	-5.2	Germany	Automobiles & Parts
19	Tencent	8.2	18.4	China	Software & Computer Services
20	Oracle	8.1	19.4	U.S.	Software & Computer Services
		265.5	**17.9**		

Source: The 2022 EU Industrial R&D Investment Scoreboard. Data as of December 2023.
Note: Only companies that disclose their R&D figures according to the Scoreboard methodology can be included in the ranking. Excluded from the ranking is Amazon which, according to the Scoreboard, would be positioned at #1 in the world R&D ranking if it had separated its R&D and content investments in its annual report

R&D spending of foreign affiliates
(2021)
$37.5 billion
U.S. in Europe
$54 billion
Europe in the U.S.

Bilateral U.S.-EU flows in R&D are the most intense between any two international partners. In 2021, the last year of available data, U.S. affiliates spent $37.5 billion on research and development in Europe. On a global basis, Europe accounted for roughly 54% of total U.S. R&D in 2021. R&D expenditures by U.S. affiliates were the greatest in the United Kingdom ($7.7 billion), Germany ($6.7 billion), Switzerland ($6.1 billion), Ireland ($4.8 billion), Belgium ($2.7 billion) and France ($2,2 billion). These six countries accounted for roughly 83% of U.S. spending on R&D in Europe in 2021.

In the United States, meanwhile, expenditures on R&D performed by majority-owned foreign affiliates totaled $78.3 billion in 2021. As in previous years, a sizable share of this R&D spending 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 autos, energy, chemicals, and telecommunications. In 2021, R&D spending by European affiliates accounted for $54 billion, or 69%, of total foreign R&D spending in the United States. On a country basis, Swiss firms were the largest foreign source of R&D in the United States in 2021, spending some $13 billion, or 24% of the total of European R&D. German firms ranked second, with $11.2 billion, or 21% of the total, followed by British and Dutch companies. As Table 4 highlights, almost all the world's most innovative enterprises are domiciled in the United States or 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 intrafirm 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 sends intermediate components to their Midwest plants, or when General Motors or 3M ships components from Detroit, Michigan or St. Paul, Minnesota to affiliates in Germany or the UK. All these examples are at the core of interconnected global supply chains.

Foreign affiliate sales
(2022 estimate)
$3.8 trillion
U.S. in Europe
$3.1 trillion
Europe in the U.S.

Table 5. Related-Party Trade (2020)

Country	U.S. Imports: "Related Party Trade" (% of total)	U.S. Exports: "Related Party Trade" (% of total)
EU+UK	65	39
Germany	69	38
France	47	35
Ireland	85	38
Netherlands	74	58
UK	54	31

As of 2020. Source: U.S. Census Bureau. Data as of January 2022.

The tight linkages between European parent companies and their U.S. affiliates are reflected in the fact that roughly 65% of U.S. imports from the EU+UK consisted of intra-firm trade in 2021, the last year of available data. That is much higher than the intra-firm imports from Pacific Rim nations (around 40%) and well above the global average (48%). The percentage was even higher in the case of Ireland (85%) and Germany (68%).

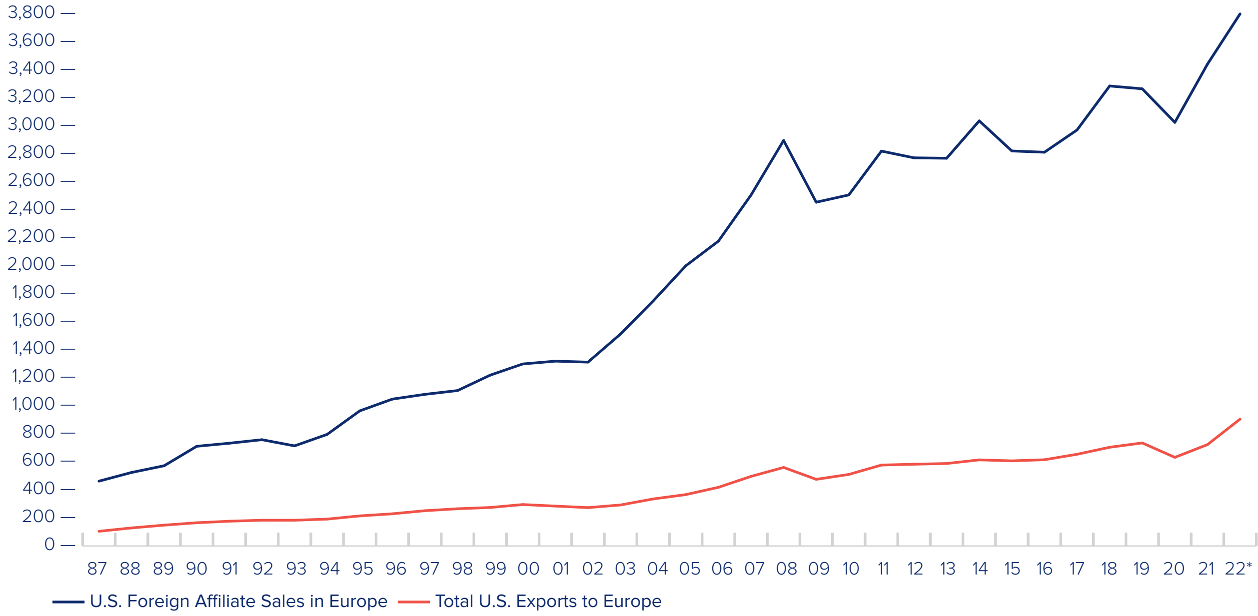
Meanwhile, 39% of U.S. exports to the EU+UK in 2020 represented intra-firm trade, but the percentage is much higher for some countries. For instance, more than half of total U.S. exports to the Netherlands (58%) was classified as related-party trade. The comparable figure for Germany was 38% and for France it was 35%.

6. Foreign Affiliate Sales

U.S. majority-owned foreign affiliate sales on a global basis (goods and services) totaled an estimated $7.7 trillion in 2021. Total U.S. exports, in contrast, were $2.5 trillion in 2021, or roughly 33% 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.

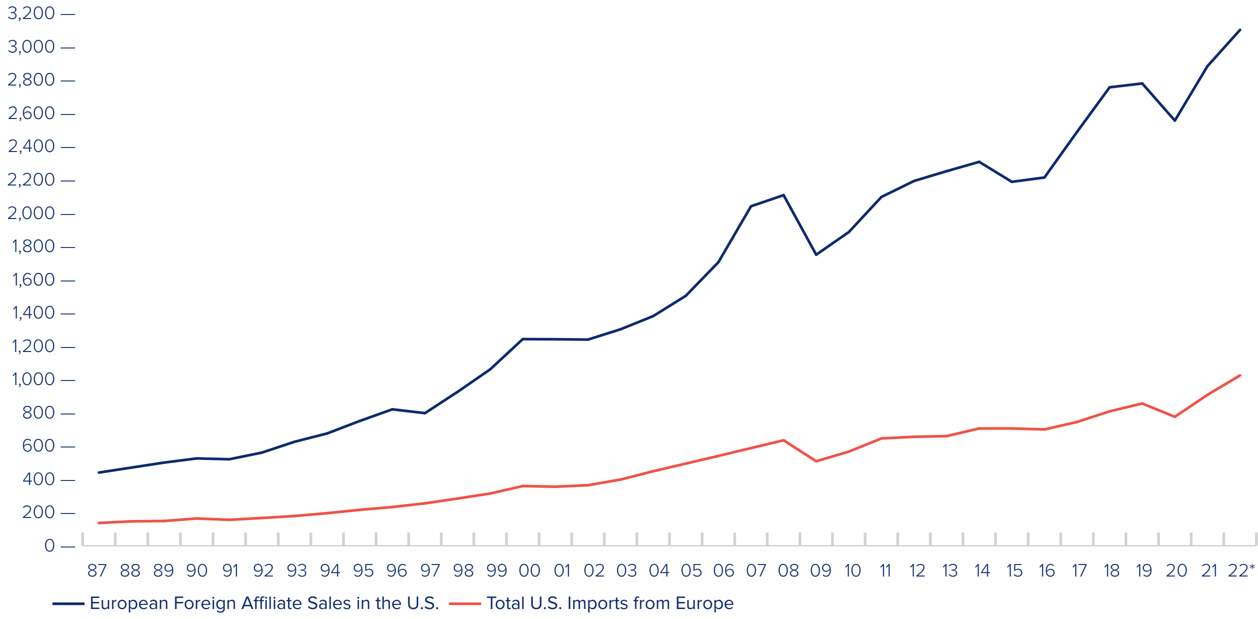
As usual, Europe accounted for the bulk of U.S. affiliate sales in 2022. We estimate that U.S. foreign affiliate sales in Europe totaled $3.8 trillion, roughly half of the global total.

Table 6. Sales of U.S. Affiliates in Europe vs U.S. Exports to Europe ($Billions)



Source: Bureau of Economic Analysis.
Majority-owned non-bank affiliates data: 1987 - 2008. Majority-owned bank and non-bank affiliates: 2009 - 2022.
**Foreign Affiliate Sales: Estimates for 2022.*

Table 7. Sales of European Affiliates in the U.S. vs U.S. Imports from Europe ($Billions)



Source: Bureau of Economic Analysis
Majority-owned non-bank affiliates: 1987 - 2006. Majority-owned bank and non-bank affiliates: 2007 - 2022.
**Foreign Affiliate Sales: Estimates for 2022.*

Transatlantic profits set record highs in 2023.

Reflecting the primacy of Europe when it comes to U.S. foreign affiliate sales, sales of U.S. affiliates in Europe were roughly 56% larger than the comparable figures for the entire Asian region in 2021, the last full year of available data. Affiliate sales in the United Kingdom, totaling $723 billion, were notably double the total sales in South America, highlighting the UK's significant role in transatlantic commerce. Sales in Germany ($387 billion) were roughly double 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 2022, for instance, we estimate that majority-owned European affiliate sales in the United States ($3.1 trillion) were more than triple U.S. imports from Europe. By country, sales of British and German firms were the largest ($632 billion each) in 2021, followed by the Netherlands ($423 billion). For virtually all countries in Europe, foreign affiliate sales were easily more than their U.S. imports in 2021.

Foreign affiliate profits (2023 estimate)

$350 billion

U.S. in Europe

$190 billion

Europe in the U.S.

7. Foreign Affiliate Profits

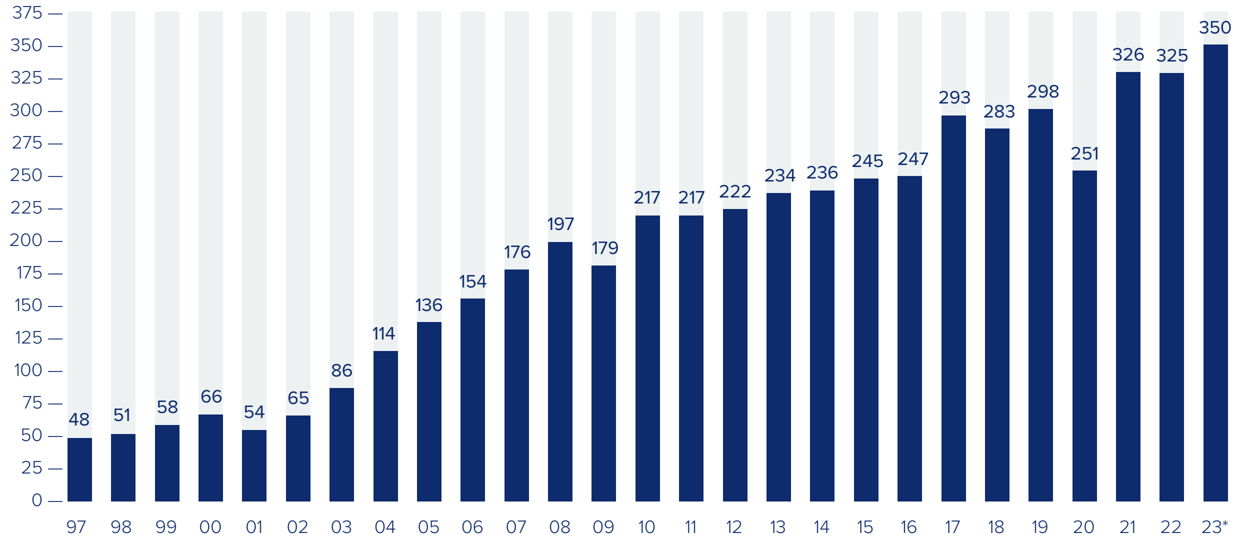
As we outlined in Chapter 1, transatlantic profits set record highs in 2023 by our estimates. U.S. affiliate income in Europe rose to a record $350 billion in 2023, while European affiliate income in the United States reached an all-time high of $190 billion. It was another solid year for profits – notwithstanding the tumult ripping through the global economy. As the key source of foreign profits for U.S. firms, the EU accounted for nearly 56% of U.S. global foreign affiliate income in the first nine months of 2023.

On comparative basis, U.S. affiliate income from Europe is simply staggering: $260 billion in the first nine months of 2023, about 2.7 times more than U.S. affiliate income in all of Asia ($85 billion). As a reminder, we define Europe here in very broad terms, including not only the EU27 but also the United Kingdom, Norway, Switzerland, Russia, and smaller markets in Central and Eastern Europe.

It is interesting to note that combined U.S. affiliate income from China and India in 2022 ($20 billion), the last year of full data, was a fraction of what U.S. affiliates earned/reported in the Netherlands, the United Kingdom, or Ireland.

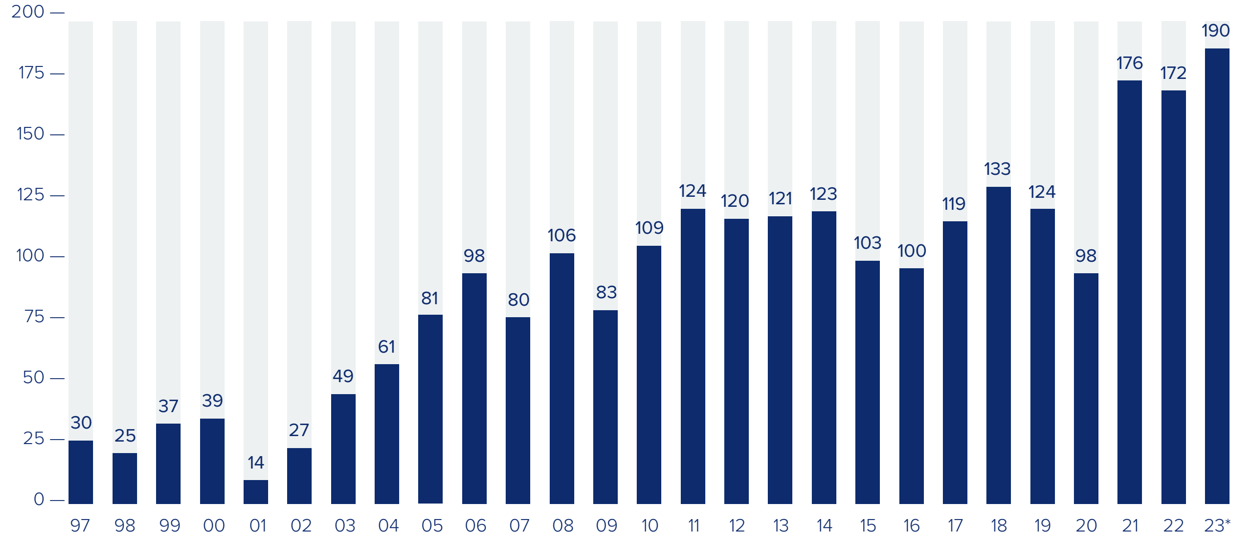
Still, there is little doubt that the likes of China, India and Brazil are becoming more important earnings engines for U.S. firms – notwithstanding strained U.S. trade relations with China. To this point, in the first nine months of 2023, U.S. affiliate income in China ($8.6 billion) was more than affiliate income in Germany ($7.8 billion), France ($5.2 billion), and Spain ($1.1 billion). U.S. affiliates in India earned $6.7 billion in the January-September period, well more than that earned in many European countries.

Table 8. **U.S. Foreign Affiliate Income Earned in Europe** ($Billions)



Source: Bureau of Economic Analysis.
**Data for 2023 is annualized using 3 quarters of 2023 data*

Table 9. An Historic High: European Affiliate Earnings in the U.S. ($Billion)



Source: Bureau of Economic Analysis.
**Data for 2023 is annualized using 3 quarters of 2023 data.*

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.

8. Transatlantic Services

The United States and Europe are the largest services economies in the world. They are each other's largest services market, which means that when an exogenous shock like COVID-19 strikes, transatlantic services activities are most vulnerable. Although the pandemic battered numerous U.S.-European services activities in 2020, the transatlantic services markets have since rebounded robustly.

U.S. services exports to Europe totaled $402 billion in 2022, a sharp rise from the depressed levels of the pandemic-scarred years. The UK remains the largest market for U.S. services exports and the largest source of U.S. services imports.

U.S. services imports from Europe also rebounded in 2022, rising to $293 billion, up from $235 billion the year before. Against this backdrop, the U.S. services surplus with Europe, after falling to $94 billion in 2020, rose to $107 billion in 2022. This compares to a $202 billion trade deficit in goods for the same year. On a regional basis, Europe accounted for 43% of total U.S. services exports in 2022 and for 42% of total U.S. services imports.

Five out of the top ten global export markets for U.S. services in 2022 were in Europe. Ireland ranked first, followed by the United Kingdom (2nd), Switzerland (3rd), Germany (7th), and the Netherlands (10th). Of the top ten services providers to the United States in 2022, five were European states, with the UK ranking first, Germany second, Switzerland sixth, Ireland seventh, and France tenth.

Table 10. Top Markets for U.S. Services Trade ($Billions, 2024)

U.S. Services Exports

Rank	Total Services		Travel		Other Business		Financial		IP Charges		Transport		Telecom/Info Svcs	
1	Ireland	84.3	Mexico	15.5	Ireland	46.3	UK	22.2	Ireland	26.2	Germany	7.3	Canada	7.6
2	UK	82.0	China	13.9	Switzerland	26.0	Canada	9.6	Switzerland	18.3	UK	6.8	UK	7.1
3	Canada	71.3	Canada	13.2	Singapore	23.7	Luxembourg	6.8	China	8.4	Canada	6.7	Switzerland	4.6
4	Switzerland	55.6	India	12.4	Canada	20.2	Ireland	5.5	Canada	7.3	South Korea	6.2	Japan	4.2
5	China	41.5	UK	9.5	UK	18.3	Japan	5.3	Netherlands	7.0	Japan	6.1	Germany	3.8
6	Germany	40.9	Brazil	5.1	Germany	12.4	Australia	4.3	Japan	5.9	France	4.3	Ireland	3.6
7	Japan	38.3	Germany	4.5	Netherlands	11.6	China	4.2	Germany	5.6	Mexico	3.5	Australia	2.9
8	Mexico	37.7	South Korea	4.2	Japan	8.7	Germany	4.1	UK	5.5	China	3.5	Brazil	2.8
9	Singapore	34.3	France	3.9	Mexico	6.7	Mexico	3.4	Singapore	3.9	Brazil	3.3	China	2.4
10	Netherlands	27.8	Australia	3.5	China	5.6	Netherlands	3.3	Hong Kong	3.7	Switzerland	2.7	Mexico	2.3
	Total	**928.5**	**Total**	**136.9**	**Total**	**245.2**	**Total**	**167.7**	**Total**	**127.4**	**Total**	**91.0**	**Total**	**66.2**

U.S. Services Imports

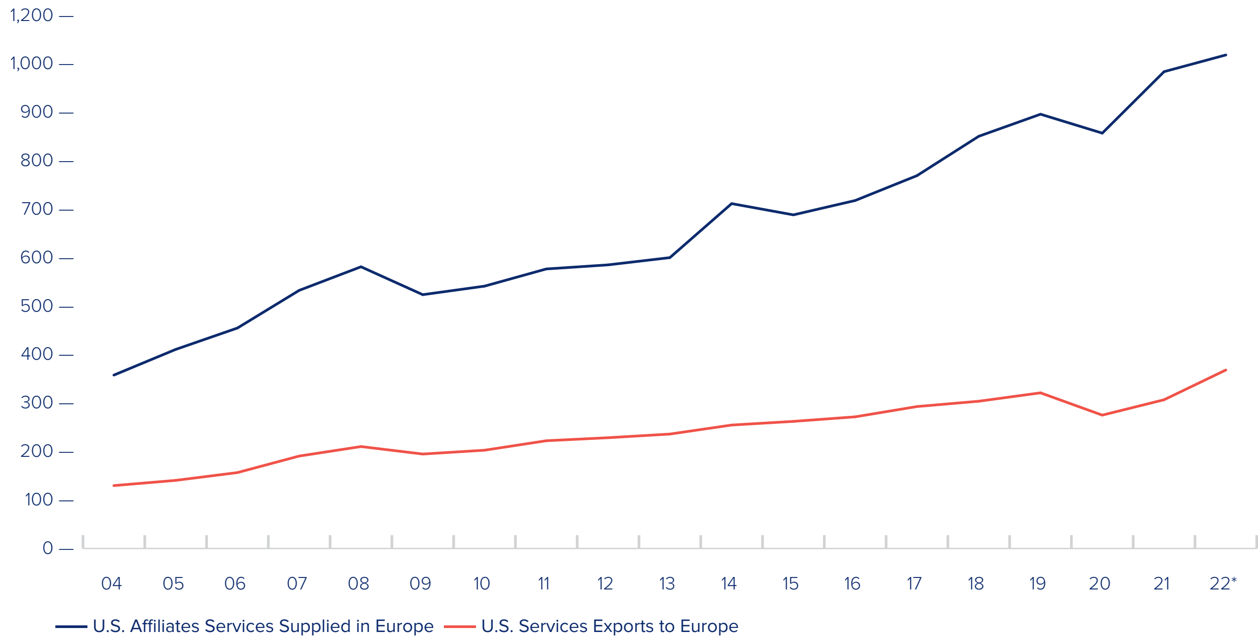
Rank	Total Services		Travel		Other Business		Financial		IP Charges		Transport		Telecom/Info Svcs	
1	UK	73.5	Mexico	23.1	UK	18.2	UK	17.4	Japan	12.2	Japan	13.4	India	12.7
2	Canada	44.6	UK	7.3	India	14.3	Canada	4.8	Germany	6.9	Germany	13.0	Canada	10.3
3	Germany	43.0	D.R.	5.6	China	10.9	Japan	2.5	Switzerland	6.4	France	12.1	Ireland	6.7
4	Japan	40.8	Canada	5.4	Canada	10.4	France	2.4	UK	4.9	Taiwan	10.8	UK	4.4
5	Mexico	38.3	Italy	5.4	Germany	8.9	Hong Kong	2.3	Ireland	3.5	Switzerland	10.7	Philippines	1.7
6	Switzerland	34.1	France	3.8	Ireland	6.7	Singapore	2.2	France	2.9	China	10.5	Netherlands	1.5
7	India	33.2	Spain	3.3	Switzerland	6.3	Australia	2.1	Netherlands	2.5	Denmark	9.3	Germany	1.1
8	France	26.7	Germany	2.8	Mexico	5.4	China	1.7	India	2.2	UK	8.4	Cyprus	1.1
9	China	26.6	Greece	2.7	Netherlands	4.2	Germany	1.3	Canada	2.0	Mexico	6.9	Japan	0.8
10	Ireland	22.4	India	2.2	Israel	4.2	Switzerland	1.3	Denmark	1.0	Canada	6.6	Switzerland	0.8
	Total	**696.7**	**Total**	**115.3**	**Total**	**138.1**	**Total**	**57.7**	**Total**	**53.2**	**Total**	**157.6**	**Total**	**53.6**

Source: Bureau of Economic Analysis.
Data as of January 2024.

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 from 2005 to 2021, the last year of available data, totaling $2 trillion, up from the year before.

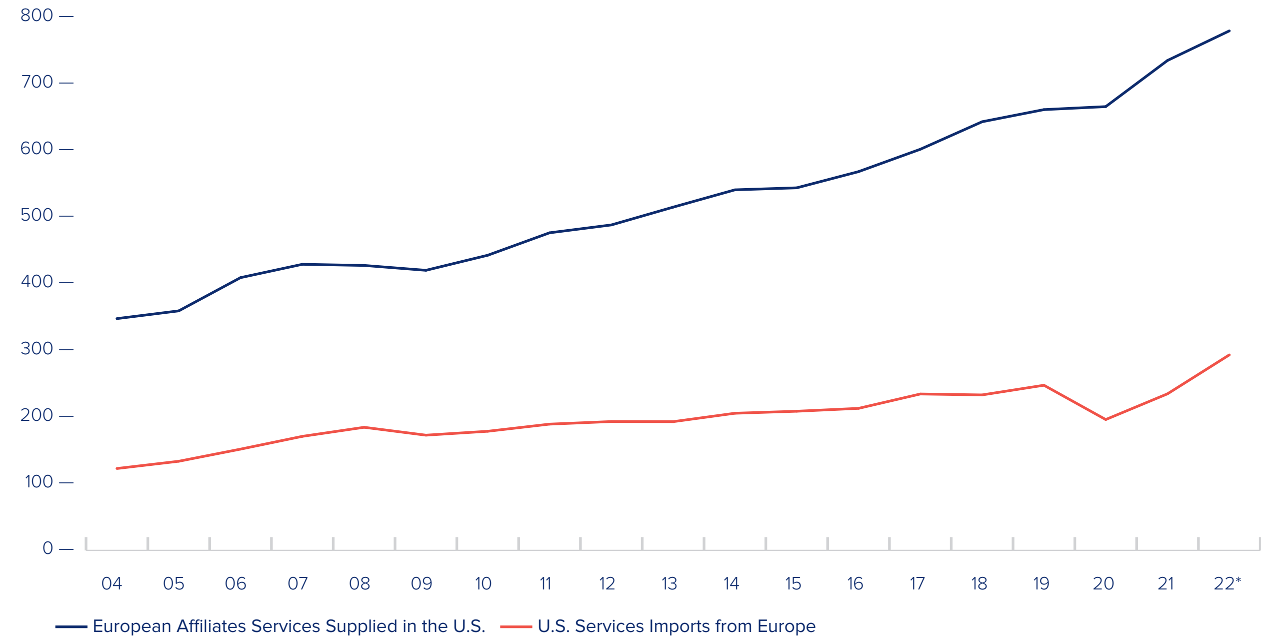
The United States and Europe are the largest services economies in the world.

Table 11. U.S.-Europe Services Linkages ($Billions)



Source: Bureau of Economic Analysis.
Majority-owned bank and non-bank affiliates. Services supplied in Europe estimates for 2022.

Table 12. Europe-U.S. Services Linkages ($Billions)



Source: Bureau of Economic Analysis.
Majority-owned bank and non-bank affiliates. Services supplied in the U.S. estimates for 2022.

Sales of services of U.S. foreign affiliates in Europe totaled $1.1 trillion, or 57% of the global total in 2021. U.S. services exports to Europe in the same year totaled $402 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.

According to the BEA, services by U.S. companies based in the UK totaled $317 billion in 2021, while services by UK firms based in the U.S. totaled $172 billion in 2021. That is over 3 times greater than U.S.-UK overall trade in services.

The UK accounted for roughly 30% of all U.S. affiliate services sales in Europe – more than combined U.S. affiliate sales in Latin America and the Caribbean, Africa, and the Middle East. Affiliate sales in Ireland remain quite large, reflecting strong U.S-Irish foreign investment ties, underlined by the presence of several leading U.S. internet, software, and social media leaders.

U.S. affiliate sales of services in Europe continue to exceed sales of services by U.S. affiliates of European firms. In 2021, the last year of complete data, European affiliate services sales in the United States totaled $753 billion, roughly 70% of comparable sales of U.S. affiliates in Europe. That said, European affiliates are the key provider of affiliate services in the United States. German affiliates lead in terms of affiliate sales of services in the United States ($196 billion), followed closely by British affiliates ($172 billion). We estimate that European affiliate services sales in the United States rose modestly to around $775 billion in 2022, after rising 13% the year before due to the post-pandemic-rebound. That is well above U.S. services imports from Europe ($293 billion) in 2022. The difference between affiliate sales of services and services imports reflects the ever-widening presence of European services leaders in the U.S. economy.

Table 13a. U.S. FDI Roots in Europe

Industry	U.S. FDI to Europe ($Billions)	Europe's % of Total U.S. FDI
European Total, all industries	4,027	61
Manufacturing	536	53

Table 13b. Europe's FDI Roots in the U.S.

Industry	U.S. FDI from Europe ($Billions)	Europe's % of Total U.S. FDI
Total from Europe, all industries	3,396	65
Manufacturing	1,693	76

Note: Historic-cost basis, 2022.
Source: Bureau of Economic Analysis.

In the end, the United States and Europe 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 is generated by European companies based in the United States, just as a good share of European services exports to the world is generated by U.S. companies based in Europe.

This mutually reinforcing dynamic between transatlantic services investments and trade means that the world's services leaders – the U.S. and Europe – are well positioned for a world in which global services trade continues to grow, even while global goods trade slows or plateaus.

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.

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