



CENTER FOR TRANSATLANTIC RELATIONS

A Common Interest in Prosperity, Despite the Rhetoric

By Daniel Hamilton and Joseph Quinlan
FT.com site; Nov 17, 2003

One of the most dangerous deficits affecting transatlantic relations today is not one of trade, payments or military capability - it is one of understanding the stake that Americans and Europeans have in each other's economies.

The facts are straightforward yet rarely acknowledged. The US and Europe are each other's most important and profitable markets. Our economic relationship is by a wide margin the deepest and broadest between any two continents in history - and it is growing closer. The years since the cold war - the years when the demise of the common threat supposedly loosened transatlantic ties - in fact marked one of the most intense periods of integration ever. What is perhaps most striking is that economic integration strengthened further in the present year of political disintegration. This is particularly true of US economic engagement with those bad "old" boys of Europe, France and Germany.

Corporate America pumped nearly \$40bn in foreign direct investment into Europe in the first half of this year, an almost 15 per cent increase on the same period a year ago. Aided by the dollar's steep decline against the euro, US foreign affiliates in Europe in the same period earned nearly \$35bn, 23 per cent more than in the same period last year.

In spite of anti-French rhetoric in the US, FDI into France hit \$2.3bn in the second quarter, one of the highest quarterly levels in nearly a decade. US profits from France jumped to \$1.7bn in the first half of this year, up from just \$700m in the same period a year ago.

Wall Street's appetite for French securities has also grown, with net US portfolio inflows to France rising to \$3.9bn in the first eight months of this year. That compares with less than \$1bn in the same period a year ago and marks a sharp turnaround since 1998-2001, when US investors were net sellers of French stocks and bonds.

US investment flows to Germany were just as strong. Corporate America ploughed nearly \$5bn into Germany in the first half of 2003, a sharp reversal from the first half of last year, when US investment in Germany fell by \$4.7bn. US investors sank an additional \$700m in German securities and exporters recorded a 10 per cent jump in German orders in the first eight months of the year.

Europeans are also returning strongly to the US market. European companies put \$36.3bn in FDI into the US in the first half of this year - more than double that of the same period last year. British companies accounted for roughly two-thirds of the total, yet even after excluding the UK, European investment flows across the Atlantic rose to nearly \$13bn in the first half of the year, greater than the \$11.1bn invested in all of 2002. Eurozone portfolio inflows to the US totalled \$47bn in the first eight months of the year, compared with just \$1.3bn in the same period last year.

German companies have been among the largest European investors in the US. German foreign investment in the US was \$6.4bn in the first half of the year, compared with disinvestments of \$4.6bn in the same period of 2002. Moreover, German portfolio managers bought nearly \$12bn in US securities in the first eight months of this year, after selling off \$2.3bn last year.

European affiliates in the US earned \$22.1bn during the first six months of the year, a surge of nearly 50 per cent over the same period last year. French affiliates in particular saw their US-based earnings soar to \$2.5bn in January-June, compared with \$1.4bn a year earlier.

At first glance, the news is good: transatlantic commerce, fuelled by mutual investment, remains robust and - so far - is more attuned to good economics than bad diplomacy. But the darker reality is that the relationship between our strategic and economic agendas has reversed.

During the cold war, leaders strove to keep transatlantic economic conflicts from spilling over to the core political alliance. Now the challenge is to keep transatlantic political disputes from damaging our core economic relationship.

Pouring French wine down the drain or vandalising McDonald's may make for splashy headlines, but the more significant development is the accelerating integration of the European and US economies. Transatlantic divorce? We literally cannot afford it.

Daniel Hamilton is director of the Center for Transatlantic Relations at Johns Hopkins' School of Advanced International Studies. Joseph Quinlan is a fellow at the Center