

The Transatlantic Economy 2011

Executive Summary

- Despite the recession, the US and Europe remain each other's most important markets. No other commercial artery in the world is as integrated.
- The transatlantic economy generates close to \$5 trillion in total commercial sales a year and employs up to 15 million workers in mutually “onshored” jobs on both sides of the Atlantic.
- The transatlantic economy is the largest and wealthiest market in the world: 54% of world GDP in terms of value and 40% in terms of purchasing power.
- Even following the financial crisis, US and EU financial markets continue to account for well over two-thirds of global banking assets; three-quarters of global financial services; 77% of equity-linked derivatives; more than 70% of all private and public debt securities; almost 80% of all interest-rate derivatives; almost 75% of all new international debt securities; and 70% of all foreign exchange derivatives transactions. 92.8% of global foreign exchange holdings were either in dollars (62.1%), euros (26.5%) or sterling (4.2%) in mid-2010.
- As globalization proceeds and emerging markets rise, however, transatlantic markets are shifting from a position of preeminence to one of predominance—still considerable, but less overwhelming than in the past.

On the Mend—But Still Hurting

- In 2010 the transatlantic economy rebounded sharply from the depressed levels of 2009. Trade, foreign investment, foreign affiliate income, and mergers and acquisition all enjoyed positive growth rates and in some cases, record growth.
- Green shoots of economic recovery are appearing in 2011, but most areas of the US and Europe face stubborn unemployment, impaired financial systems and mounting fiscal debts.
- 2011 is likely to see a three-speed global economy: Europe and Japan less than 2% growth; emerging markets 7% or more; the U.S. in between.
- Government debt is likely to exceed 100% of GDP in Greece, Italy, Ireland, Belgium and France by 2012. The EU's public debt is around 80% of GDP. Eurozone budget deficits average 6.2% of GDP.
- US federal debt tripled from \$3.5 trillion in 2000 (35% of GDP) to \$9 trillion in 2010 (62% of GDP) and could reach total US GDP by 2015, same as Greece and Italy today. The fiscal 2011 US federal budget deficit could total \$1.5 trillion, a record, 10% of GDP.
- The potential for a sovereign default or debt rescheduling in the eurozone remains a real risk in 2011 and would not spare US banks.

Investment Drives the Transatlantic Economy

- The US and Europe are each other's primary source and destination for foreign direct investment (FDI).
- US FDI to the EU jumped nearly 30% during the first nine months of 2010, a solid rebound from 2009.
- Direct US FDI flows rose sharply to the UK (243%), Belgium (172%), Italy (48%), and Germany (22%) in the first nine months of 2010.
- US FDI to Ireland fell 17.5% and to Spain 6% in 2010. US firms *disinvested* \$157 million in Greece in 2009 and \$18 million in 2010.
- Between 2000 and 2010 US firms sunk roughly \$1.3 trillion into Europe—over 60% of total US FDI for the entire decade. Europe's share of total US FDI in 2010 was roughly 52%.
- Over the past decade 5 of the top 10 US FDI markets were European: NL #1, UK #2, Canada #3, Ireland #4, Switzerland #5, Mexico #6, Germany #7, Singapore #8, Australia #9, Japan #10, Belgium #11, Spain #15.
- US FDI outflows to the BRICS between 2001 and 2009: only 3.7% of global U.S. FDI outflows.
- China is 12th as a destination of US FDI, behind Belgium, France, Germany, Switzerland, Ireland, the UK and the Netherlands.

- US investment in the NL 2000-2010 was 9 times more than in China. US investment in the UK was over 7 times more and in Ireland nearly 3 times more.
- Since 2000 US firms have invested more in the Netherlands alone than in South and Central America, the Middle East and Africa combined.
- US investment in India since 2000: 60% of that to Norway.
- Roughly 60% of US assets were located in Europe. Largest share: the UK (14%, \$1.6 trillion in 2008)—more than total combined US assets in Asia, South America, Africa and the Middle East.
- US assets in the NL (\$1.2 trillion) were 2nd largest in the world in 2008. More than half of US affiliate sales in the Netherlands are for export within the EU.
- America's 2008 asset base in Germany (\$547 billion) was nearly double its asset base in all of South America.
- America's collective asset base in Poland, Hungary, and the Czech Republic (roughly \$85 billion) was twice the size of corporate America's assets in India.
- On a historic cost basis, 2009 US investment position in Europe was nearly 14 times larger than in the BRICs.
- US investment in Europe (\$2 trillion) was nearly four times more than in all of Asia at the end of 2009.

- US investment stakes in Belgium at the end of 2009 (\$70 billion on a historic cost basis) were on par with the combined US investment position in China and India (\$68 billion).
- Corporate America's investment stakes in Ireland (\$166 billion) are much greater than total US investment in South America (\$125 billion).
- US investment in Spain (\$51 billion) is greater than in all of Africa (\$45 billion).
- Europe accounted for 53% of total foreign output of US affiliates (nearly \$1.2 trillion in 2008).
- US affiliates accounted for 21% of Ireland's total output in 2008; 7.2% of Norway, 6.2% of the UK, 5.7% of Switzerland, and 4.5% of Belgium.
- US foreign affiliate output in Belgium in 2008 (\$22.5 billion) was more than double US foreign affiliate output in India (\$9.2 billion) and higher than in Indonesia (\$14.3 billion).
- US affiliate output in Poland equaled that in Russia in 2008 (\$8.3 billion each).
- Europe remains the most profitable region of the world for US firms. US foreign affiliate income earned in Europe rose to an estimated \$196 billion in 2010—a record high—after collapsing in 2009.

- Even in recession year 2009 Europe accounted for over 53% of total global affiliate earnings for U.S. companies, and 57% since 2000.
- Sales of US affiliates in Europe were roughly double Asia/Pacific. Affiliate sales in the UK (\$622 billion) exceeded sales in all of Latin America.
- US affiliates in 2009 earned over 6 times more in the NL (\$53 billion) than in China and India (\$8.7 billion).
- US affiliates earned \$2.6 billion in Poland, Hungary and the Czech Republic in recession year 2009, four times the level of 2000.
- The US was the top recipient of EU FDI outflows in 2010. European inflows totaled \$106 billion in the first nine months of 2010, a 70% rise from the same period a year earlier. That equates to an annualized figure of around \$140 billion—a marked improvement from 2009, yet still well below 2008 (\$202 billion).
- The upturn in US inflows from Europe was led by the Netherlands (+391%), the United Kingdom (+93%), Switzerland (+87%), Ireland (+85%), Germany (+53%) and France (+17%). Combined, these six countries accounted for nearly two-thirds of total EU investment in the U.S. the first nine months of 2010.
- In recession year 2009 Europe's investment stakes in the US totaled a record \$1.7 trillion, a 13% rise from 2008 and more

than triple the level of a decade earlier. Corporate Europe accounted for 74% of total foreign direct investment in the US in 2009 (\$2.3 trillion).

- In 2009 EU FDI in the US (€1.1 trillion) was almost 13 times more than EU combined investment in China and India (€85.5 billion). EU FDI in China totaled €58.3 billion in 2009, up from €47.2 billion in 2008, while EU FDI in India tallied just €27.2 billion in 2009, up from only €19.3 billion in 2008.
- Between 2001 and 2009 EU FDI outflows to the BRICS represented only 8.4% of global EU FDI outflows; most was to Brazil and Russia, not China and India.
- The EU is the largest single provider of FDI to each of the BRICs, led by Germany and the UK.
- The EU is by far Russia's major commercial partner, accounting for over half of its overall trade turnover and up to 75% of its FDI stocks.
- EU investment assets in the US are 3 times the size of those in the BRICs.
- The US is the most important market in the world in terms of European global earnings: \$105 billion in 2010.
- French affiliate income in the US in 2010 soared 344% from 2009. Affiliate income among German, British and Dutch affiliates rose 63%, 23%, and 33%, respectively.

- European affiliates accounted for 2/3 of the \$670 billion in total 2008 foreign affiliate production in the US.
- The Southeast and Mid-Atlantic account for one-third of all EU FDI in the US. Texas, California and New York are the top three states.

Transatlantic Trade

- The US is the #1 country market for EU goods exports 20% in 2009. The US also imports most services from the EU—43% of all US services imports in 2009.
- North America accounts for 23% of EU exports – the same as the Asia-Pacific region.
- Total US exports to the EU rose 7.1% in the first 8 months of 2010 vs. the same period a year earlier. But US global exports grew over 22%.
- China is the #1 exporter to the EU. China's share of EU goods imports 2000-2009 grew to 18.2% from 7.7%; North America's share shrank to 15.9% from 23.9%.
- The EU is the #1 trading partner for each BRIC.
- The EU exports more goods to China than does the US. EU goods exports to China have been growing 30% ave./yr over the past decade—faster than to any other destination. But still small—the EU exports more to Switzerland than to China.

- US goods exports plunged 43% to Greece, 3.3% to Ireland, and 2% to France in the first eight months of 2010. US exports rose 15.7% to Italy, 11.2% to Germany and to Switzerland, and 7.6% to Spain.
- California exported \$25 billion in goods to Europe in 2009; Texas \$24.2 billion; New York \$20 billion.
- Over the past 15 years the EU has essentially maintained its 19% market share of world exports, despite the rise of emerging markets. China tripled its performance and on the eve of the recession accounted for 16.1%. Japan and the US each lost around 6% in market shares; US 12.5% and Japan 8.6% of world market shares in 2007.

Transatlantic Services: The Sleeping Giant

- The US and Europe are the two leading services economies in the world. The US is the largest single country trader in services; the EU is the largest trader in services among all world regions.
- The US is the world's top exporter of commercial services, with a global export share of 14.1% in 2009, the UK ranks second (7%), followed by Germany (6.8%) and France (4.3%).
- The EU15 almost quadrupled their services trade balance over the past decade; the EU in 2009 had a trade surplus in services with every world region except North America and the Caribbean. 18 EU member states ranked among the top 40

exporters of services in 2009, accounting for 43.4% of world market share.

- The US and Europe are also each other's most important commercial partners when it comes to services trade and investment. The US and European services economies have never been as intertwined as today in financial services, telecoms, utilities, insurance, advertising, computer services, and other related activities.
- North America was the largest destination for EU services exports (29.6%) and the largest source of EU services imports (36.9%) in recession year 2009.
- 5 of the top 10 export markets for US services in 2009 were in Europe: UK #1, Ireland #4, Germany #5, Switzerland #7 and France #8. The same 5 countries ranked among the top 10 service providers to the US.
- The EU accounted for just over 41% of total US services exports and for 43% of imports in recession year 2009.
- US services exports to the EU doubled from \$100 billion in 1997 to \$200 billion in 2009, but fell 11.5% in 2009. Still, the US enjoyed a \$54 billion trade surplus in services with Europe in 2009, compared with its \$120 billion trade deficit in goods with Europe.
- In 2009 US services imports from Europe fell 10%.
- Sales of services by US foreign affiliates in the EU in 2008 rose to a record \$638 billion, more than double the level of

2000. US affiliate sales of services in the EU were nearly triple US services exports to the EU.

- Europe accounted for 57% of total US services sales.
- The UK; 36% of all U.S. affiliate sales of services in the EU, just behind total US affiliate sales to all of Asia.
- European affiliate sales of services in the US were more than 2.5 times larger than US services imports from Europe.

Transatlantic Jobs

- Europe is the most important source of “onshored” jobs in America and the US the most important source in Europe.
- Most foreigners working for US companies outside the US are Europeans, and most foreigners working for European companies outside the EU are American.
- 42% of the 10.1 million people employed by US majority-owned affiliates in 2008 lived in Europe—most in the UK, Germany and France, and almost evenly split between manufacturing and services.

The Transatlantic Innovation Economy

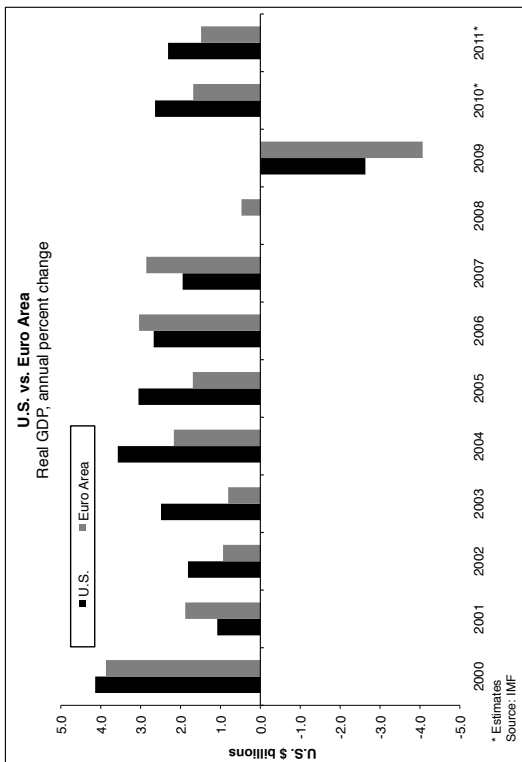
- US-based companies account for 34.3% and EU-based companies for 30.6% of the top R&D companies in the world, with Japan accounting for an additional 22%.

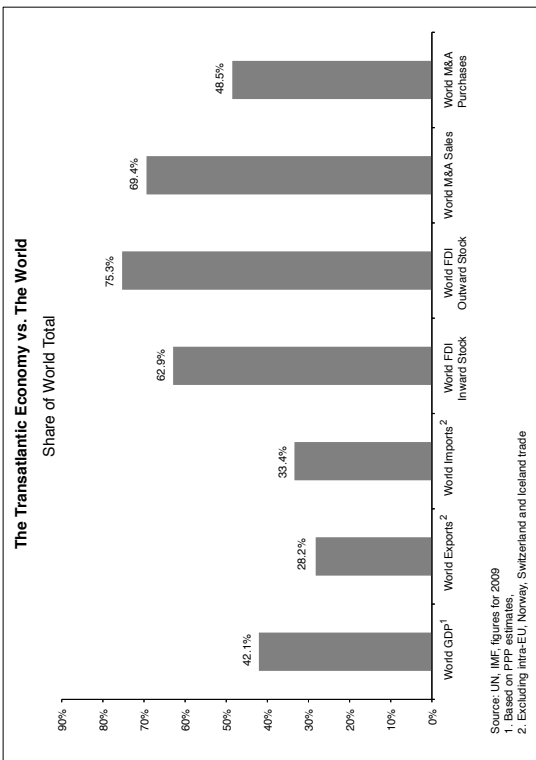
- Of the global top 20 companies spending on innovation, 9 are in the US and 7 in Europe.
- 18 of the top 20 knowledge regions in the world are in the US and Europe.
- The transatlantic share of global patents has fallen from 70% in 1999 to 62% today.
- In 2008, US affiliates sunk \$24 billion on R&D in Europe, 65% of total R&D expenditures.
- The UK, Germany, France, Sweden and Ireland accounted for ¼ of US global R&D spending in 2008.
- Majority-owned foreign affiliates spent nearly \$40.5 billion in 2008—15% of total R&D spending in the US; ¼ is from Europe.

The Potential of an Open Transatlantic Marketplace

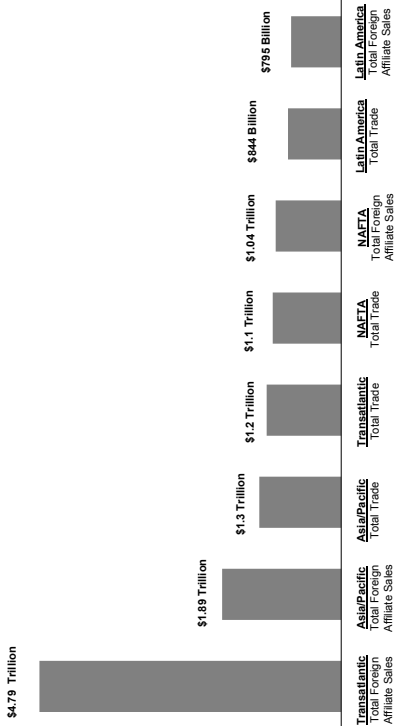
- A US-EU zero-tariff agreement on trade in goods alone could boost annual EU GDP by up to .48% and 1.48% for the US; generate welfare gains of up to \$89 billion for the EU and \$87 billion for the US; and push EU exports to the US up by 18% and to the EU up by 17%.
- A 75% reduction of services tariffs would yield almost \$13.9 billion annually for the EU and \$5.6 billion for the US.
- Aligning half of relevant non-tariff barriers and regulatory differences between the EU and US would push EU GDP .7%

higher in 2018, an annual potential gain of €122 billion; and boost US GDP .3% a year in 2018, an annual potential gain of €41 billion. An average EU household would receive an additional €12,500 over a working lifetime, and an average US household an additional \$8,300 over a working lifetime. US exports would increase 6.1% and EU exports 2.1%.



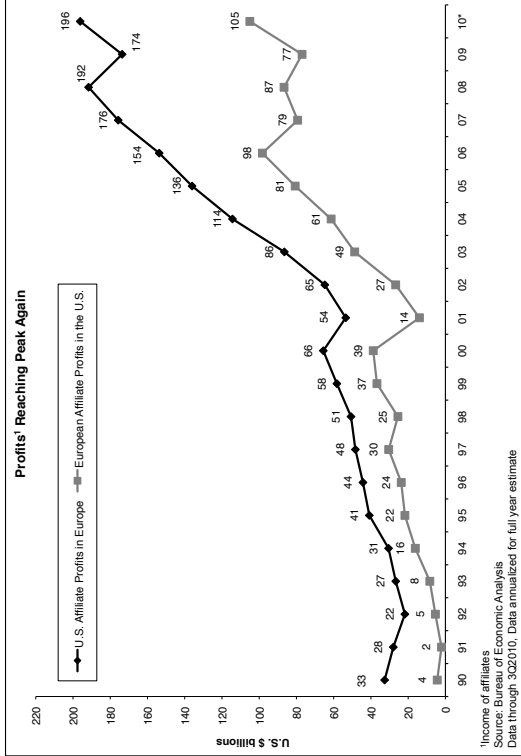


America's Major Commercial Arteries

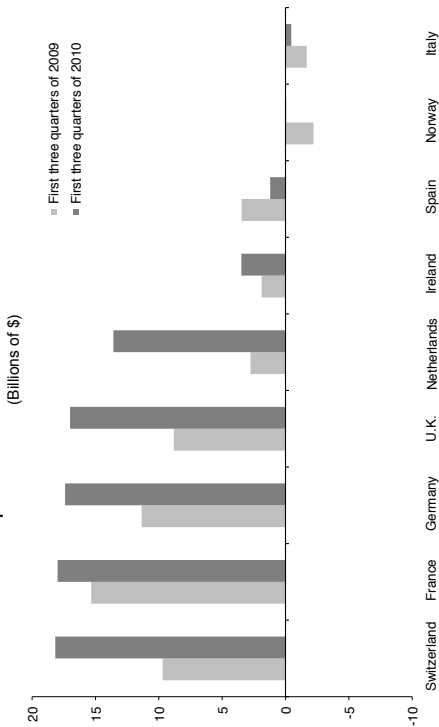


Foreign Affiliate Sales: Data for 2008 Total Trade: Data in goods & services, 2008

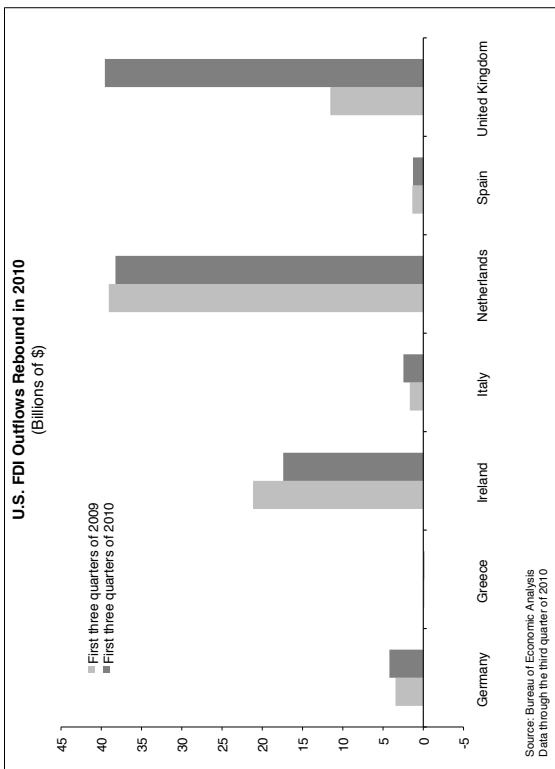
Source: Bureau of Economic Analysis

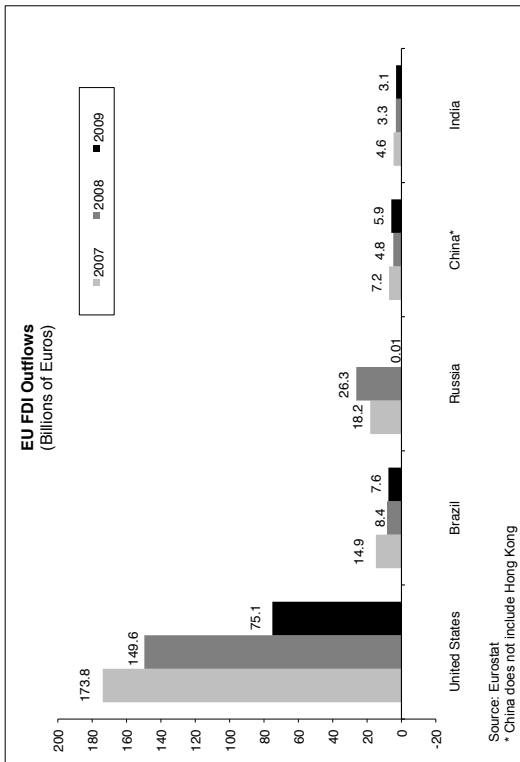


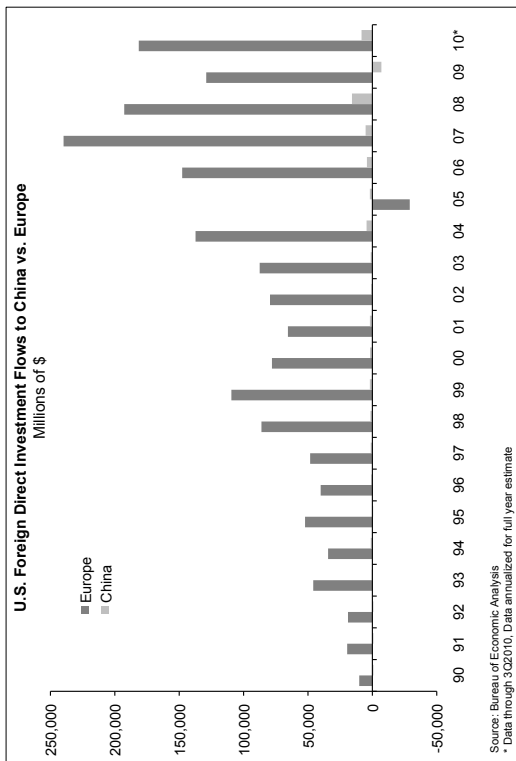
European FDI to the United States Rebounds in 2010

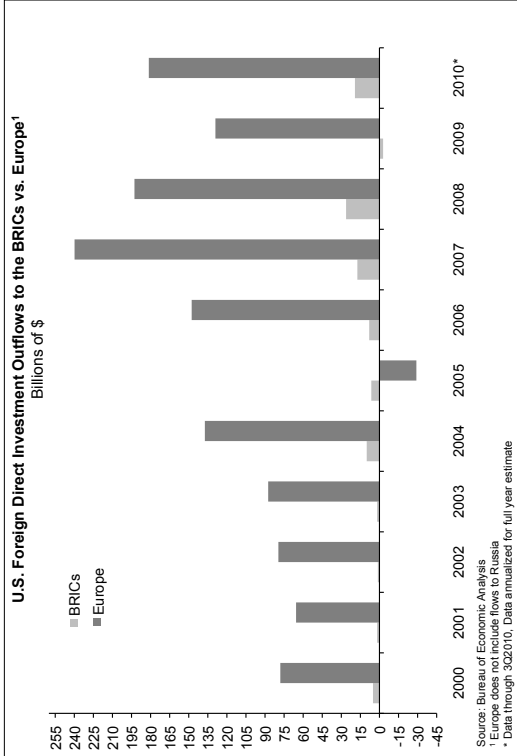


Source: Bureau of Economic Analysis
Data through the third quarter of 2010









The U.S. - European Employment Balance

Thousands of employees, 2008

Country	European Affiliates ¹ of U.S. Companies	U.S. Affiliates ² of European Companies	Employment Balance
Austria	44.0	14.4	-29.6
Belgium	129.0	179.3	+50.3
Denmark	38.9	26.8	-12.1
Finland	23.8	31.5	+7.7
France	604.4	550.2	-54.2
Germany	621.3	614.2	-7.1
Ireland	89.0	66.2	-22.8
Italy	232.9	86.5	-146.4
Luxembourg	13.6	35.5	+21.9
Netherlands	228.8	371.5	+142.7
Norway	33.7	8.0	-25.7
Spain	188.1	66.8	-121.3
Switzerland	81.5	394.4	+312.9
United Kingdom	1,174.2	957.4	-216.8
Europe	3,503.2	3,402.7	-100.5

Note: Employment balance "+" favors the United States

Source: Bureau of Economic Analysis

¹ Majority-owned non-bank affiliates

² Majority-owned bank and non-bank affiliates

The Power Brokers of the Global Economy Compared

	Eurmerica	Asia	Chindia	Chimerica
GDP, PPP	42.1%	30.3%	18.1%	33.1%
GDP, Nominal	54.3%	24.3%	10.8%	33.0%
Market cap. (as of 1/26/2011)	\$27.8 trillion	\$17.0 trillion	\$5.0 trillion	\$19.3 trillion
Personal consumption exp. (as of 10/31/10)	58.4%	23.4%	7.4%	34.3%
M+A Sales	69.4%	24.3%	6.8%	20.4%
M+A Purchases	48.5%	25.7%	8.7%	18.1%
Inward FDI stock	62.9%	19.7%	3.6%	20.3%
Outward FDI stock	75.3%	16.0%	1.6%	23.9%
Inflows (2000-2008)	58.6%	21.6%	7.2%	21.5%
Outflows (2000-2009)	74.4%	15.4%	2.2%	19.1%
Exports* (Goods)	28.2%	30.6%	15.4%	25.4%
Imports* (Goods)	33.4%	27.6%	13.4%	27.7%
Military Spending**	\$996.0	\$272.30	\$135.4	\$762.1
	63.7%	17.4%	8.7%	48.7%
Top 100 Global Brands (2010)	89 brands	8 brands	None	50 brands (all American)
	valued at \$1.1 tr.	valued at \$105 bil.		valued at \$761.6 bil.

* Total does not incl. Intra-EU27 + Norway, Switzerland, & Iceland trade

**U.S. \$ billions at constant 2008 prices

Sources: IMF, Bloomberg, UNCTAD, SIPRI, Interbrand, EIU

All data for 2009 otherwise noted