Drifting Apart or Growing Together? The Primacy of the Transatlantic Economy

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Foreword

Daniel S. Hamilton

One of the most dangerous deficits affecting transatlantic relations today is not one of trade, payments or military capabilities but rather a deficit in understanding by opinion leaders—in and out of government—of the vital stake Americans and Europeans have developed in the health of our respective economies. The political, economic and media errors that result from this deficit are shortchanging American and European consumers, producers, workers and their families.

The facts are straight forward yet rarely acknowledged. Despite the perennial hype about the significance of Nafta, the "rise of Asia" or "big emerging markets," the United States and Europe remain by far each other's most important commercial partners. The economic relationship between the United States and Europe is by a wide margin the deepest and broadest between any two continents in history—and those ties are accelerating. The years since the Cold War—the years when the fading "glue" of the Cold War partnership supposedly loosened transatlantic ties—marked in fact one of the most intense periods of transatlantic integration ever. This $2.5 trillion transatlantic economy employs over 12 million workers on both sides of the Atlantic who enjoy high wages, high labor and environmental standards, and open, largely non-discriminatory access to each other's markets.

Lost in headline stories about banana, beef or steel disputes are two critical facts. First, these squabbles represent a miniscule amount of overall transatlantic economic activity. Second, trade flows themselves are a misleading benchmark of transatlantic economic interaction. Foreign investment, not trade, drives transatlantic commerce, and contrary to common wisdom, most U.S. and European investments flow to each other, rather than to lower-wage developing nations. Such investments are fusing our societies together far more tightly than the shallow form of integration represented by trade flows.

Also absent from most reporting and analysis is the fact that global profits of U.S. and European firms are generated largely from the places where their investment roots are deepest—each other's markets. Europe remains the most important foreign source of global profits for U.S. companies whipsawed by one crisis after another in the emerging markets. U.S. companies rely on Europe for just over half their total annual foreign profits. America, the world's largest debtor nation, also relies on Europeans for capital to fund its record external imbalances.

If one uses Tom Friedman's definition of globalization as farther, faster, deeper and cheaper integration at inter-continental distances, then it is advancing farthest, fastest, deepest and cheapest between the continents of Europe and North America. The networks of interdependence that are being created across the Atlantic have become so dense, in fact, that they have attained a quality far different than those either continent has with any other. Many transatlantic tensions result less from the fashionable notion that our societies are drifting apart, and more from the growing evidence that they are in fact colliding. Often these frictions are so severe precisely because they are not traditional "at-the-border" trade disputes, but reach beyond the border and affect such fundamental domestic issues as the ways Americans and Europeans are taxed, how our societies are governed, or how our economies are regulated.

These issues go to the heart of globalization. If globalization is going to proceed as its promoters suggest, the U.S. and Europe will have to show that they can deal with the challenges generated by the deep integration of their economies. If the U.S. cannot resolve such differences with Europe, it is unlikely to resolve them with economies much less like its own. The possibilities—and potential limits— of globalization are likely to be defined first and foremost by the successes or failures of the transatlantic relationship.

Policy decisions and media reporting continue to overlook or underestimate the nature and degree of these changes. Yet a fuller appreciation of the depth and breadth of transatlantic economic ties is perhaps more important than ever, given that emotions have been rubbed raw by transatlantic disputes over Iraq and by festering trade squabbles. Through its various study groups and seminars, media activities, policy reports and academic studies, the Center for Transatlantic Relations is working to address the challenges facing transatlantic relations in a global age. In this study, Center Fellow Joe Quinlan presents a solid, comprehensive picture of the transatlantic economy, and what it means to Americans, Europeans and the world economy. We are grateful to him.

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Joseph P. Quinlan

Executive Summary

- One of the defining features of the global economic landscape over the past decade has been the increasing integration and cohesion of the transatlantic economy. Globalization is happening faster and reaching deeper between Europe and America than between any other two continents.
- The data in this study suggest that the past decade was not primarily about U.S. companies spreading their operations to the four corners of the globe. Rather, it was a time when the transatlantic economy became even more intertwined and interdependent. Failing to understand this dynamic can lead to serious errors of policy and cause significant damage to U.S. and European interests.

It's Foreign Investment, Stupid

- Trade statistics remain the standard benchmark by which governments, politicians and the media usually measure international commerce. And yet a trade-only view of America's global economic engagement is dangerously misleading, because it overlooks a basic fact: whenever and wherever possible, U.S. firms prefer to sell goods and services abroad through their foreign affiliates rather than export them from the US.
- U.S. foreign affiliate sales hit a record $2.9 trillion in 2000, nearly three times larger than U.S. exports ($1.1 trillion) in the same year.
- American firms invested more capital overseas in the 1990s — in excess of $750 billion — than in the prior four decades combined. This surge in U.S. foreign direct investment (FDI) did not flow to the new and untapped markets of the developing nations, as many assume. Rather, the bulk of U.S. FDI in the 1990s -- roughly half of the global total -- went to the Old World, Europe.
- Foreign investment is the backbone of the transatlantic economy, not trade. And when one adds investment and trade together to get a more complete picture, one sees that U.S. economic engagement remains overwhelmingly focused on Europe – that's where the markets are, that's where the profits are.
- Similarly, foreign affiliates of European companies have been the chief means by which European companies deliver products to U.S. consumers.
- The total output of U.S. foreign affiliates in Europe ($333 billion in 2000) and of European affiliates in the U.S. ($301 billion) is greater than the total gross domestic output of most nations.
- Although transatlantic trade disputes steal the headlines, trade itself accounts for less than 20% of transatlantic commerce, and U.S.-EU trade disputes account for less than 1% of transatlantic commerce.

Europe and America: That's Where the Profits Are….

- When it comes to the bottom line, Europe—by a wide but not fully appreciated margin—remains the most important region in the world for corporate America.
- In 2001, and throughout most of the 1990s, Europe accounted for **half** of total global earnings of U.S. companies, as measured by U.S. foreign affiliate income.

- The United Kingdom is the most important national market in the world for corporate America when it comes to global earnings. On average, the UK represented just over 26% of total affiliate income earned in Europe over the 1990-2001 period and for roughly 13% of the global total.
- The United States is the most important market in the world in terms of earnings for European multinationals. U.S. affiliate income of European affiliates rose more than five-fold in the 1990's to nearly $26 billion.
- Europe's investment stake in the U.S., on an historical-cost basis, grew to a whopping $835 billion in 2000, which is nearly one-quarter larger than America's stake in Europe. European firms have never been as exposed to the U.S. economy as in the first decade of the 21st century.

That's Where the Markets Are….

- Corporate America's foreign assets tallied over $5.2 trillion in 2000. The bulk of these assets — roughly 58% -- were located in Europe, with the largest share in the United Kingdom, followed by the Netherlands and Germany.
- America's asset base in the UK is almost equivalent to the combined overseas affiliate asset base of Asia, Latin America, Africa and the Middle East. And during the 1990s U.S. investment in the United Kingdom ($175 billion) was nearly 50% larger than the total invested in the entire Asia-Pacific region.
- U.S. assets in Germany alone -- $300 billion in 2000 -- were greater than total U.S. assets in all of South America.
- Europe accounted for more than half of U.S. foreign affiliate sales in 2000, with affiliate sales of $1.4 trillion more than double comparable figures for the entire Asia/Pacific region.
- The UK, not China or Mexico, was at the forefront of America's great overseas investment boom of the 1990s, attracting just over 20% of total US FDI over the period. The Netherlands ranked third, after Canada.
- U.S. affiliate sales in the United Kingdom alone in 2000 ($413 billion) exceeded aggregate sales in Latin America.
- Despite all the talk about U.S. investment flows to Mexico courtesy of the North American Free Trade Agreement (Nafta), U.S. firms in the 1990s ploughed nearly twice as much capital into the tiny Netherlands ($65.7 billion) as they sank into Mexico ($34.1 billion).
- While U.S. affiliate sales in China skyrocketed over the 1990s, by 2000 such sales still only totaled $32 billion – roughly equal to U.S. affiliate sales in Sweden, less than one-tenth of those in Germany ($236 billion) and about one-fourth of those in France ($137.5 billion).
- Nearly three-quarters of all foreign investment in the US in the 1990s came from Europe ($659 billion).
- European firms held some $3.3 trillion in US assets in 2000, accounting for more than two-thirds of total foreign assets in the U.S. There is more European investment in Texas alone than all U.S. investment in Japan.

- Affiliate sales, not trade, represent the primary means by which European firms deliver goods and services to U.S. consumers. In 2000, the value of European affiliates sales in the U.S. ($1.4 trillion) was over four times larger than the value of U.S. imports from Europe.
- UK affiliates sales in the U.S. in 2000 were more than five times the amount of UK exports to the U.S. German affiliate sales in the U.S. were more than four times greater than German exports to the U.S. – a dramatic comparison given that Germany traditionally has been considered a classic "trading" nation.

That's Where Jobs Are….

- The bulk of corporate America's overseas workforce does not toil in low-wage nations like Mexico and China. Rather, the majority are employed in relatively well-paying jobs in the industrialized nations, notably in Europe where U.S. firms employed 4.1 million workers in 2000. If one adds indirect employment, close to 6 million Europeans owe their livelihoods to American investors.
- European affiliates employed roughly 4.4 million American workers in 2000, some 6.5% greater than U.S. affiliate employment in Europe. If one adds indirect employment, about 7 million Americans owe their livelihoods to European investors, who on average pay higher wages and provide greater benefits than domestic U.S. employers.
- The top five employers in the U.S. were firms from the United Kingdom (1.2 million workers), Germany (730,000), France (649,000), the Netherlands (561,000) and Switzerland (554,000). Out of the 6.4 million US workers on the payrolls of foreign affiliates in 2000, European firms accounted for nearly 70% of total employment.
- The manufacturing workforce of U.S. affiliates in Germany was in excess of 400,000 in 2000, double the number of manufacturing workers employed by U.S. foreign affiliates in China.
- Many in the U.S. fret over American jobs being lost to China, but few realize that the United Kingdom is home to the largest overseas workforce of U.S. affiliates, with U.S. firms employing nearly 1.3 million workers in 2000, more than the entire number of workers employed by affiliates in developing Asia, including almost five times the number of those working for U.S. affiliates in China.

That's Where the Research Is….

- A full two-thirds of U.S. corporate research and development conducted outside the United States is conducted in Europe.

That's Where the Money Is...

- Europe is not only a critical source of revenue for blue-chip companies, it is also a key supplier of capital or liquidity for the debt-stretched United States, which presently must borrow over $1.4 billion a day to finance its current-account deficit.

Drifting Apart? Or Crashing Together?

- In sum, the years since the fall of the Berlin Wall have witnessed one of the greatest periods of transatlantic economic integration in history. Our mutual stake in each other's prosperity has grown dramatically since the end of the Cold War. We ignore these realities at our peril.

Introduction: Thinking the Unthinkable—The Collapse of the Transatlantic Alliance?

In December 2000, the Central Intelligence Agency, in collaboration with the National Intelligence Council, released a forward-looking report called *"Global Trends 2015: A Dialogue About the Future with Nongovernment Experts."* The objective of the 90-page report was to identify and assess the major drivers that would shape the world of 2015. The scope and breadth of the report were impressive, ranging from divergent aging patterns between the developed and developing nations, to global environmental trends, to the future state of warfare. Not unexpectedly, the report took particular notice of the rise of China, the unpredictability of OPEC, the emergence of Russia, and the potential for growing strife in the Middle East, Africa and various developing nations.

The study, on balance, did an admirable job mapping the key trends of the next decade. However, the first mention of one of the most important relationships in the world—that between the United States and Europe—does not appear until page 76, and then only fleetingly. When the study finally turns to "Possibilities Different from Those Presented in the Body of the Study," the reading becomes a little more interesting and, from today's vantage point, timely. Under the section on "Significant Discontinuities," or possible but unlikely trends quite different from the base-line assumptions of the report, one sentence in particular stands out:

> "The U.S.-European alliance collapses, owing in part to intensifying trade disputes and competition for leadership in handling security questions."

That the probability of a transatlantic divorce was relegated to the back pages of the report is not surprising. For the better part of the past 50 years, transatlantic cooperation has been one of few constants of the global economy, notwithstanding periodic episodes of stress and strain on both sides of the Atlantic. Yet if an amended version of *Global Trends 2015* were published today, transatlantic discord and the threat of a transatlantic collapse would no doubt deserve more space and attention. Much has changed in the United States, Europe and the world since the report was released just three years ago. Indeed, the issues that stir dissent and debate on both sides of the ocean seem to multiply with each passing month. Examples include the confrontation with Iraq, disagreement over antitrust legislation, trade in agriculture and steel, Russia's entry into the World Trade Organization, the Middle East, genetically modified food, the Kyoto agreement on global climate change, non-proliferation issues and the International Criminal Court. All of these issues and more have converged to place significant strains on the transatlantic relationship.

The events of September 11, 2001 initially produced a heightened degree of transatlantic harmony. Immediately following the terrorist attack, Europe proclaimed its "unlimited solidarity" with the United States. Backing up such talk, NATO allies invoked the Article V mutual defense clause of the North Atlantic Treaty. Since then, though, much goodwill and sense of cooperation has dissipated for all the reasons just outlined.

Today, the challenge for policy makers on both sides of the Atlantic is to forge a more constructive environment for debate and dialogue, lest negative predictions regarding U.S.-Europe relations become self-fulfilling. What the headlines obscure, and what the current political and economic debate lacks, is an appreciation of just how economically fused the U.S. and Europe have become over the past half-century, particularly in the past decade. All the loose talk of the United States and Europe drifting apart ignores this simple truth. Accordingly, the sooner opinion leaders on both sides of the Atlantic recognize just how entangled and interdependent the transatlantic economy has become, a dynamic mutually beneficial to all parties, the sooner they will realize what is at stake. The stakes, indeed, are huge—for the U.S., Europe and the world at large. A relationship that has been the bedrock of a half-century of world peace and global economic development can no longer be taken for granted.

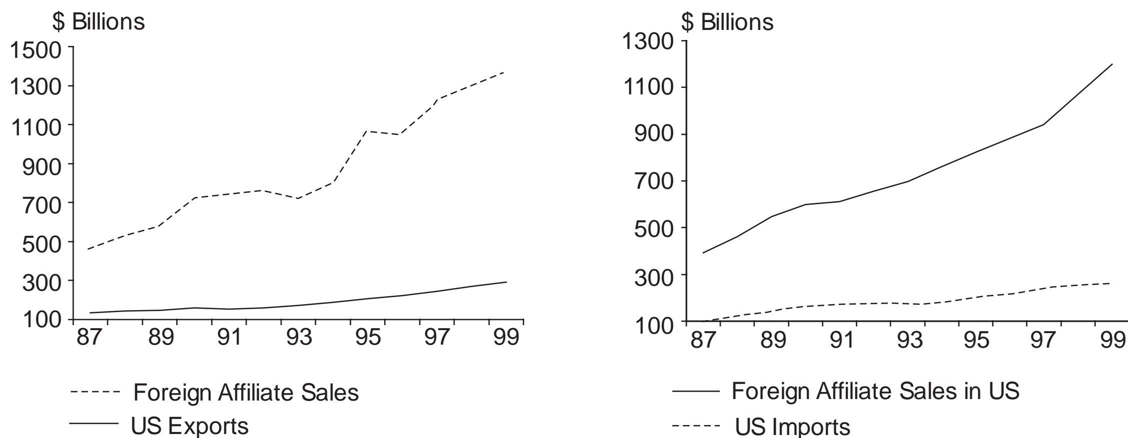
The objective of this study is to reveal the magnitude and depth of transatlantic linkages as a contribution to a more informed and more substantive debate about U.S.-European relations.

The Ties That Bind—Quantifying the Transatlantic Economy

For all that has been written about the transatlantic divide and the widening gulf that separates the U.S. from Europe, there has been comparatively little analysis or recognition of the economic glue that binds the two parties together. Misunderstood by many opinion leaders is this: the transatlantic economy is tightly bound together by foreign investment (a deep form of integration) as opposed to trade (a shallow form of integration). This is reflected by the massive capital investment of the United States in Europe, and vice versa, Europe's outsized investment commitment in the United States. While exports and imports are the most common measures of cross-border activity between two parties, foreign direct investment and the activities of foreign affiliates are the backbone of transatlantic commercial activity.

Lost in the transatlantic debate is the fact that U.S. and European companies invest more in each other's economies than they do in the entire rest of the world. Transatlantic commercial ties are the largest in the world, with total commerce amounting to roughly $2.5 trillion in 2000. That figure includes total two-way trade between the U.S. and Europe, plus total foreign affiliate sales, adjusted for potential double counting of affiliate sales and exports/imports. This relationship employs directly or indirectly over 12 million people on both sides of the Atlantic who enjoy higher wages, higher labor and environmental standards, and open, largely, non-discriminatory access to each other's markets. Despite the rhetorical flourishes one hears about shifting American priorities due to Nafta or the "Asian Century," over the past eight years American investment in the Netherlands alone was twice what it was in Mexico and ten times what it was in China. Europe, not Asia or Latin America, is the most important source of global earnings for American companies. Similarly, for many leading European firms, the United States remains the most important market in the world.

Diagrams 1 and 2: U.S. and European Affiliate Sales vs. Trade



Source: Bureau of Economic Analysis

If we consider the following seven indicators, a clearer picture of this idea begins to emerge:

1. Gross Product of Foreign Affiliates. The total output of U.S. foreign affiliates in Europe ($333 billion in 2000) and of European affiliates in the U.S. ($301 billion) is greater than the total gross domestic output of most nations. On a global basis, the gross product of U.S. affiliates topped $600 billion in 2000, with Europe accounting for roughly 55% of the total. The presence of U.S. affiliates in some European nations is particularly noteworthy; for instance, the gross output of U.S. affiliates in Ireland represented 17.8% of the nation's total GDP in 2000. U.S. affiliates accounted for 7.8% of the UK's aggregate output in the same year and 6.4% of the Netherlands. In the United States, European affiliates are major economic producers in their own right, notably British firms, whose U.S. output totaled $100 billion in 2000. As a footnote, an affiliate is defined as a business enterprise whereby a U.S. or foreign firm owns or controls 10% or more of the voting securities of the incorporated firm. Gross product of affiliates is for majority-owned affiliates.

2. Overseas Assets of Foreign Affiliates. America's overseas commercial presence is unsurpassed, with total foreign assets of corporate America tallying over $5.2 trillion in 2000. The bulk of these assets—or roughly 58%—were located in Europe, with the largest share in the United Kingdom, followed by the Netherlands and Germany. In Germany alone, U.S. assets of $300 billion were greater than total U.S. assets in all of South America. America's corporate assets in the United Kingdom, $1.3 trillion, exceeded the total for the entire Asia/Pacific region. As for foreign owned assets held in the U.S., European firms held some $3.3 trillion in U.S. assets in 2000, just over two-thirds of the total. The stock of Europe's investment in the U.S. is widely distributed. Indeed, European companies are the top foreign investor in 44 states, and marked second in the remaining six states, according to figures from the European-American Business Council.

3. Affiliate Employment. The bulk of corporate America's overseas workforce does not toil in low-wage nations like Mexico and China. Rather, the majority are employed in the industrialized nations, notably in Europe where U.S. firms employed 4.1 million workers in 2000. The European workforce of U.S. majority-owned foreign affiliates was almost evenly split between manufacturing and services workers. The number of manufacturing workers in Europe as a percentage of the global total of U.S. affiliates has leveled off in recent years, although U.S. firms still employed 1.9 million manufacturing workers in Europe in 2000. The manufacturing workforce of U.S. affiliates in Germany was in excess of 400,000 in 2000, double the number of manufacturing workers employed by U.S. foreign affiliates in China. The United Kingdom is home to the largest overseas workforce of U.S. affiliates, with U.S. firms employing nearly 1.3 million workers in 2000, more than the entire number of workers employed by affiliates in developing Asia.

In terms of European affiliate employment in the U.S., European affiliates employed roughly 4.4 million workers in 2000, some 6.5% greater than U.S. affiliate employment in Europe. The top five employers in the U.S. were firms from the United Kingdom (1.2 million workers), Germany (730,000), France (649,000), the Netherlands (561,000) and Switzerland (554,000). In 2000, roughly 402,000 U.S. workers joined the payrolls of foreign companies from the year before, according to figures from the Bureau of Economic Analysis, with

European firms accounting for 95% of the increase. Out of the 6.4 million U.S. workers on the payrolls of foreign affiliates in 2000, European firms accounted for nearly 70% of total employment. As an important footnote, the figures cited above understate the employment effects of investment. The numbers are for direct employment only, and do not include indirect employment related to nonequity arrangements like strategic alliances, joint ventures, and other deals. In addition, affiliate employment figures do not include jobs supported by trade with Europe. Employment related to trade is substantial in many states. In California, for instance, merchandise exports to Europe support an estimated 490,000 jobs in 2000. The number of jobs supported by exports to Europe in New York totaled over 280,000 in 2000 and more than 220,000 in Texas.

4. Research & Development (R&D) of Foreign Affiliates. While R&D expenditures remain biased towards the home country, foreign affiliate R&D has become more prominent over the past decade as firms seek to share the costs of development, spread the risks and tap into the intellectual talent of other states. Alliances, cross-licensing of intellectual property, and mergers and acquisitions—these and other forms of cooperation have become more prevalent of the transatlantic economy in the past decade. The advent and spread of the internet on both sides of the Atlantic has been key in bolstering greater R&D collaboration, with interregional internet bandwidth between North America and Europe four times greater than bandwidth between North America and Asia (see Figure 10 in the appendix).

While accounting for roughly 15% of total U.S. expenditures, research and development of U.S. foreign affiliates totaled nearly $20 billion in 2000. The bulk was in the developed nations, or where the largest pool of skilled labor resides. In particular, Europe accounted for two-thirds of the total, with the United Kingdom, Germany, France and Switzerland, in that order, representing markets where R&D expenditures were greatest. No comparable figure for Europe's R&D investment in the U.S. are available. However, given America's highly skilled labor force and the research-intensity of many European sectors (chemicals, telecoms, automobiles), European R&D expenditures in the U.S. are substantial.

5. Intra-firm Trade of Foreign Affiliates. Foreign affiliate sales are the primary means by which transatlantic commerce is conducted. Cross border trade is a secondary means of delivery, although the two models of delivery—affiliate sales and trade—should not be viewed independently of each other. They are more complements than substitutes, since foreign investment and affiliate sales increasingly drive trade flows. A substantial share of transatlantic trade is considered intra-firm trade or related party trade, which is cross border trade that stays within in the ambit of the company. It's BMW of Germany sending parts and components to BMW South Carolina, or a Dupont affiliate in Texas exporting a specialty chemical to an affiliate in the Netherlands. Reflecting the tight linkages between European parent companies and their U.S. affiliates, roughly 54% of U.S. imports from the European Union consisted of related party trade in 2001. In the case of Germany, the percentage (66%) was even higher. Meanwhile, roughly 30% of U.S. exports to Europe in 2000 represented related party trade.

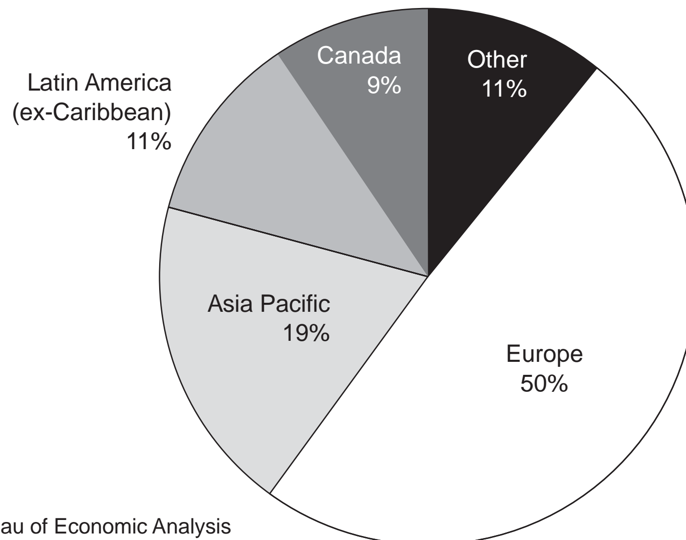
6. Foreign Affiliate Sales. U.S. foreign affiliate sales hit a record $2.9 trillion in 2000, nearly three times larger than U.S. exports ($1.1 trillion) in the same year. Europe accounted for half of total sales, with affiliate sales of $1.4 trillion more than double comparable figures for the entire Asia/Pacific region. Affiliate sales in the United Kingdom alone ($413 billion)

exceeded aggregate sales in Latin America. While sales in China skyrocketed over the 1990s on account of surging U.S. foreign direct investment, sales of only $32 billion in China in 2000 were on par with total sales in Sweden and well below those in Germany ($236 billion) and France ($137.5 billion).

Affiliate sales are also the primary means by which European firms deliver goods and services to U.S. consumers. In 2000, for instance, what European affiliates sold in the U.S. ($1.4 trillion) was over four times larger than U.S. imports from Europe. In the case of the United Kingdom, the gap between affiliate sales and imports was even wider, with UK affiliates sales in the U.S. more than five times the amount of U.S. imports from the UK. The dramatic nature of the changes underway is underscored by the fact that German affiliate sales in the U.S. were more than four times greater than German exports to the U.S.—a striking statistic for Germany, a country commonly thought to be a classic "trading" nation.

7. Foreign Affiliate Income. When it comes to the bottom line or the earnings of U.S. multinationals, Europe—by a relatively large margin—remains the most important region in the world for corporate America. In 2001, and throughout most of the 1990s, Europe accounted for half of total U.S. foreign affiliate income, a proxy for global earnings. Unbeknownst to many, the United Kingdom ranks as the most important market in the world for corporate America when it comes to global earnings. On average, the UK represented just over 26% of total affiliate income earned in Europe over the 1990-2001 period and for roughly 13% of the global total. Similarly, the United States is the most important market in the world in terms of earnings for many European multinationals. The sectors most exposed to the U.S. market include telecoms, automobiles, media, technology, capital goods, utilities and pharmaceuticals. Reflecting the rising importance of the U.S. market, the U.S. affiliate income of European affiliates rose more than five-fold between 1990 and 2000, from $4.4 billion to nearly $26 billion.

Diagram 3: U.S. Foreign Affiliate Income 1990-2001



Source: Bureau of Economic Analysis

Transatlantic Linkages—a Historical Perspective

Commercial relations between the U.S. and Europe date back to the colonial period. Yet it was not until the mid—to late 1800s, with the introduction of the steamship, the telegraph and the transoceanic cable that the transatlantic economy took shape in earnest. New technologies helped shrink the distance between the Old and New Worlds. Yet two world wars, together with the Great Depression, weakened and stunted transatlantic linkages in the first half of the 20th century. As evidence, the book value of U.S. foreign direct investment in Europe totaled $1.7 billion in 1950, barely above the figure of $1.4 billion in 1929.

In contrast, the second half of the 20th century was a period of sustained integration and economic cohesion for the transatlantic economy. Notwithstanding periodic cyclical downturns in trade and investment flows, the commercial foundations of the transatlantic economy have only deepened over the past fifty years. In the aftermath of World War II, cross-border ties were bolstered by the Marshall Plan, the establishment of the Bretton Woods system, the creation of various multilateral institutions (the World Bank and the International Monetary Fund) and by such framework agreements as the General Agreement on Tariffs and Trade (GATT), now the World Trade Organization (WTO). These initiatives and institutions provided the basis for greater U.S.-European economic cooperation, facilitating rising cross-border trade and investment flows. The latter were also complemented by cooperation in defense and security matters, as the U.S. and Europe united in a common defense against communism by establishing the North Atlantic Treaty Organization (NATO).

Mirroring these expanding bilateral ties between the U.S. and Europe over the past half-century, the book value of U.S. foreign direct investment (FDI) in Europe totaled $612 billion in 1999, versus just $1.7 billion in 1950. Meanwhile, Europe's investment stake in the U.S., totaling $2.2 billion in 1950, amounted to $640 billion in 1999. Total trade (exports plus imports) between the two parties topped $500 billion in 1999, versus less than $10 billion at the outset of the post-Cold War era. By the end of the 20th century, the economic interdependence of the United States and Europe was greater than ever. Both parties entered the 21st century as key anchors to global growth and prosperity and the chief architects of the rules-based system governing global commerce.

The Early Postwar Period: America's Tilt towards Europe

In the aftermath of World War II, U.S.-European commercial relations were relatively shallow or underdeveloped. U.S. FDI abroad totaled roughly $12 billion on an historical-cost basis in 1950, with the sum almost evenly divided between the developed and the developing nations. Canada, however, consumed nearly two-thirds of U.S. investment in the developed nations and just over 30% of the global total. Similarly, Latin America attracted the bulk of U.S. FDI among the developing nations. Combined, Canada and Latin America represented roughly 70% of America's overseas investment position at the outset of the Cold War. Mining and oil exploration were the principal sectors driving U.S. investment outflows, which helps explain the north-south concentration of U.S. investment flows in the early 1950s.

Europe's share of U.S. overseas investment was just 15% in 1950, with the United Kingdom accounting for nearly half of the European total. In the intervening decades, though, the motivations for investing overseas among U.S. firms shifted, as did the geographic composition of U.S. foreign investment. Access to markets, rather than raw materials, became the overriding determinant of U.S. firms' overseas expansion. As a result, Europe, which had lagged Canada and Latin America in the early 1950s, emerged as the most favored destination of U.S. firms in the ensuing decades, a ranking the region has never relinquished.

As Europe rebuilt and recovered from the ravages of war in the late 1950s, and moved toward the creation of a common market, U.S. firms were quick to seize the opportunities across the Atlantic. While U.S. foreign investment outflows to Europe averaged just $400 million (in nominal terms) annually in the 1950s, the annual average more than quadrupled in the 1960s, jumping to $1.7 billion. Cumulative U.S. outflows to Europe totaled $16.6 billion over the 1960s. That represented nearly 40% of the U.S. total, up from a 20% share in the 1950s. In the 1970s, Europe's share jumped to 47% of total U.S. FDI, and over the 1980s and 1990s, Europe consumed more than half of total U.S. investment outflows.

1950-1975: Asymmetrical Transatlantic Investment Flows

U.S.-European investment flows in the quarter-century from 1950 to 1975 were overwhelmingly unbalanced, with U.S. outflows to Europe dominating total flows. Indeed, on an historical-cost basis, America's overseas investment stake in Europe totaled nearly $50 billion in 1975, more than double Europe's investment stake in the U.S. ($18.5 billion).

This investment gap in large part was a function of global economic conditions at the time. Spared the destruction of war in their home market, U.S. firms had the advantage of a healthy economy and the financial wherewithal to expand overseas. By contrast, the 1950s and early 1960s were a period of rebuilding and reconstruction for Europe. Before expanding abroad, many European firms first had to resurrect their own facilities at home and reestablish their domestic market positions. For many companies, the wealth of local opportunities took precedence over a rush overseas. With the formation of the European Economic Community, European companies were initially venturing into neighboring countries rather than further afield.

What investment the United States did receive in the 1950-75 period was relatively concentrated. Canada, the United Kingdom and the Netherlands accounted for three-quarters of cumulative inflows in the 1950s and two-thirds over the period between 1960 and 1969. The bulk of Canada's investment was in manufacturing activities. The Dutch focus was on the U.S. energy sector, while the British presence was more dispersed and most noticeable in manufacturing, energy, and financial services. By 1975, the largest foreign investor in the U.S. was the United Kingdom, accounting for 23% of total inward investment stock in the U.S. Canada and the Netherlands followed, each with 20% of total 1975 inflows.

The 1980's: Closing the Investment Gap

The investment gap between the U.S. and Europe closed rapidly in the 1980's. Sluggish U.S. investment outflows, combined with robust European inflows, helped to rebalance

transatlantic investment links over the 1980s. The U.S. recession of the early 1980s dulled corporate America's appetite for foreign assets and reduced the value and profitability of foreign affiliates. After nearly quadrupling in the 1970s, U.S. cumulative investment outflows to Europe rose just 63% in the 1980s from the prior decade. Meanwhile, European inflows to the U.S. soared in the 1980s, totaling $216 billion for the decade versus cumulative inflows of just $28 billion in the 1970s.

The European investment wave was driven by a host of factors. Favorable market conditions in the U.S., corporate restructuring that increased the number of domestic candidates for sale, and attractive incentives from many U.S. states and municipal governments, all played a part in luring record amounts of European capital to the U.S. Shifts in U.S. tax laws related to accelerating depreciation schedules are thought to have been another catalyst. By 1983, Europe's investment position in the U.S. on an historical-cost basis was almost equal to America's investment stake in Europe. By the end of the decade, Europe's U.S. investment position was 26% larger than the comparable figure for U.S. investment in Europe. And despite a surge in foreign investment from Japan to the U.S. over the 1980s, the United Kingdom maintained its lead as the top foreign investor in the United States.

Case Study I:

Is Asia Eclipsing Europe?
Trade Tells One Story, Foreign Affiliate Sales Another

Europe's rapid investment buildup in the U.S. over the 1980s was largely overshadowed by expanding trade ties between the United States and Asia. Indeed, to many in the U.S., the 1980s were about the arrival of the "Asian Century," i.e., expanding trade ties between the U.S. and the newly emergent economic powers of Asia. In 1981, U.S. exports to Asia exceeded shipments to Europe for the first time. The occasion was trumpeted as a watershed in America's global trade relations and another significant marker of Asia's rising importance to U.S. commercial interests. The shift in trade toward Asia, along with Japan's surge in investment in the U.S., led many to conclude that America's commercial future was with Asia not Europe. By 1989, total trade between the U.S. and Asia amounted to $315 billion versus $188 billion between the U.S. and the European Union, clear evidence to many that transpacific ties were more important than transatlantic links.

But this trade-only view of U.S. global engagement is dangerously misleading. U.S.-Asian commercial ties did surge over the 1980s. But the conclusion that America's future lies in Asia rather than Europe is overstated. Missing from the equation are sales of foreign affiliates—the other (primary) means by which U.S. firms deliver goods and services to foreign markets. In addition, for instance, to the $91.6 billion U.S. firms exported to Europe in 1989, U.S. foreign affiliates sold another $511 billion worth of goods and services in Europe. Combined, U.S. exports and foreign affiliate sales to Europe totaled just over $600 billion in 1989, more than double the combined exports and affiliate sales to Asia in the same year ($272 billion). U.S.-European commercial links deepened significantly over the 1980s, a process due in large part to foreign direct investment. And as the next section makes clear, transatlantic linkages only grew stronger over the 1990s.

In the end, trade figures overlook a key element of U.S. global engagement. Whenever and wherever possible, U.S. firms prefer to sell goods and services abroad through their foreign affiliates rather than export them from the U.S. Similarly, foreign affiliates of European companies have been the chief means by which European companies deliver products to U.S. consumers. Foreign investment is the backbone of the transatlantic economy, not trade. And when one adds investment and trade together to get a more complete picture of U.S. economic engagement, one sees that U.S. economic engagement remains overwhelmingly focused on Europe—that's where the markets are, that's where the profits are. Opinion leaders need to be mindful of this dynamic.

The 1990s—Transatlantic Bonds Grow Stronger, Not Weaker

Fortifying Transatlantic Linkages

When the economic history of the 1990s is written, globalization will undoubtedly be invoked as the defining economic precept of the decade. Consistent with the initial period of globalization in the second half of the 19th century, the 1990s were a time of robust and relatively unfettered global capital flows, market-liberalization measures and buoyant global trade. The latter expanded by an average annual rate of 6.1% (in volume) over the 1990s, roughly double the rate of world GDP growth. As a result, the share of world trade in global output rose from around 19.3% in 1990 to roughly 24% by the end of the decade.

Notwithstanding the vigor of global trade, global foreign direct investment flows expanded at an even faster pace, boosting the level of global inward FDI stock from $1.9 trillion in 1990 to $6.3 trillion in 2000. In line with the surge in investment, the global assets of foreign affiliates nearly quadrupled over 1990-2000, from $5.7 trillion at the start of the decade to over $21 trillion by 2000. At the start of this decade, there were over 60,000 transnationals with more than 820,000 affiliates spread around the world. From this global production base, sales of foreign affiliates topped $15.6 trillion in 2000, compared to global exports of goods and services of $7 trillion.

Globalization's return meant that new and untapped markets in central Europe, Latin America and the Indian subcontinent were open for business. Free-market reforms became the mantra of Poland, Hungary and even Russia, in addition to Brazil, India, Mexico and China. At the heart of these reforms were initiatives to promote trade and investment that opened new markets long out of reach to multinationals. In conjunction with these measures, falling telecommunication and transportation costs and other technological advances gave global firms the capabilities and confidence to venture further afield. The proliferation of regional trading blocs had a similar effect. Besides these structural changes, cyclical variables like low interest rates and surging equity prices created excellent liquidity conditions and copious amounts of cash for global mergers and acquisitions and overseas expansion. For global corporations, the world was their oyster. New markets meant new consumers, which in turn meant new sources of revenue.

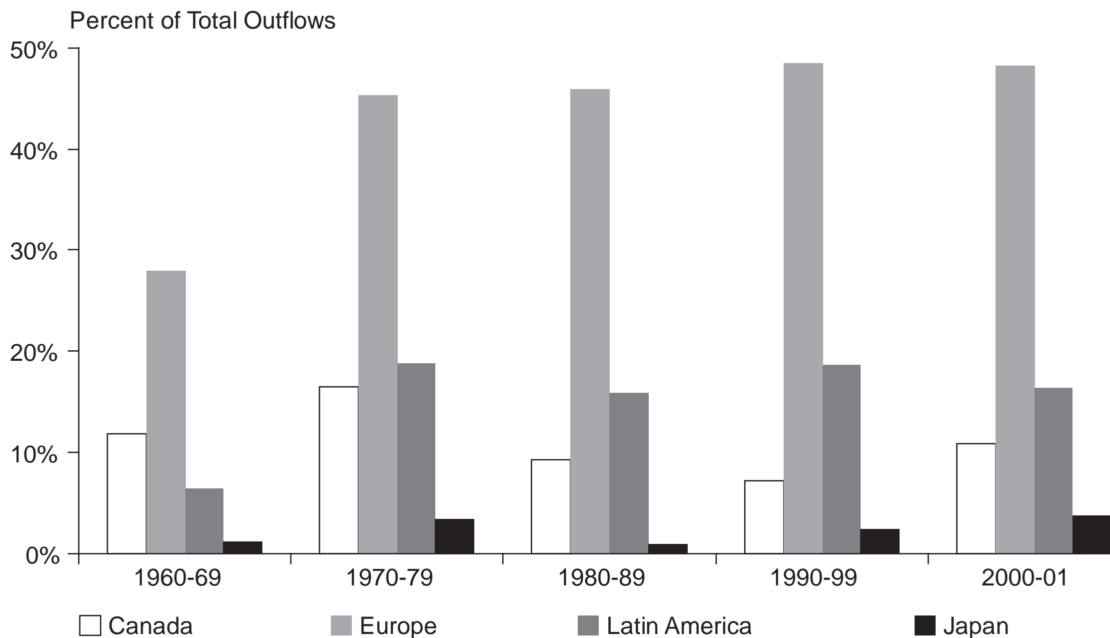
But despite all the hype associated with globalization, and notwithstanding all the excitement revolving around the emerging markets, one of the defining features of the global economic landscape in the 1990s was the increasing integration and cohesion of the transatlantic economy. The latter remained as the most powerful global economic entity in the 1990s thanks in large part to the transatlantic convergence in such key areas as industry deregulation (media, energy and telecoms), technology usage, and financial market liberalization. These variables, among others, helped to further align the macro policies and micro practices of the U.S. and Europe, which set the stage for a massive transatlantic cross-border investment wave in the later stages of the 1990s.

America's Expanding Stakes in Europe

American firms invested more capital overseas in the 1990s—in excess of $750 billion—than in the prior four decades combined. But the surge in U.S. FDI did not flow to the new and untapped markets of the developing nations, as many assume. Rather, the bulk of U.S. FDI in the 1990s, or nearly half of the global total, went to the Old World—Europe. The surge to Europe was led by investment in service activities, in that it was there that U.S. service leaders could leverage their core competencies in conjunction with the region's drive to overhaul, deregulate and privatize its inefficient service sector. Accordingly, corporate America's overseas thrust into Europe in the 1990s was primarily targeted at such activities as retail, banking, insurance, consulting, advertising and other services. Over half of total U.S. FDI investment flows to Europe over the second half of the 1990s were in services as opposed to manufacturing.

By country, the bulk of U.S. investment was concentrated in the market economy most similar to the United States—the United Kingdom. The UK accounted for nearly 22% of total U.S. FDI outflows (on a cumulative basis) in the 1990s. To put that number into perspective, the amount of U.S. investment in the United Kingdom in the 1990-99 period ($175 billion) was nearly 50% larger than the total invested in the entire Asia-Pacific region. Additionally, despite all the talk about U.S. investment flows to Mexico courtesy of North American Free Trade Agreement (Nafta), U.S. firms ploughed nearly twice as much capital into the Netherlands in the 1990s ($65.7 billion) as they sank in Mexico ($34.1 billion). Of the top ten destinations of U.S. investment in the 1990s, five countries were in Europe—the United Kingdom (ranked No. 1), the Netherlands (3), Switzerland (6), Germany (7), and France (8). Rounding out the top ten were Canada (2), Brazil (4), Mexico (5), Australia (9) and Japan (10).

Diagram 4: U.S. FDI Abroad 1960-2001



Source: Bureau of Economic Analysis Noted: Cumulative capital flows for each period

Case Study II:

The Impact of the Asian Financial Crisis: Wall Street's Overreaction

With Asia accounting for over 28% of total U.S. exports in 1997, the devaluation of the Thai baht in July 1997 and the ensuing Asian financial crisis struck fear in the heart of Wall Street in particular and global financial markets in general. The Asian economic "miracle" had suddenly become a mirage, triggering the worst fears among investors—a collapse in the most dynamic part of the world and America's top export markets. Near-depression conditions engulfed much of the region, prompting Wall Street to send a "Sell" signal on U.S.-based multinational corporations to investors, who were quick to comply.

Wall Street, however, overestimated the impact of Asia's financial crash on corporate America because when the crisis struck, investors and analysts turned to trade to measure the collateral damage. By this metric, what they saw spooked them, and for good reason. Corporate America, so many thought, was doomed as one Asian market after another devalued and collapsed into recession over the second half of 1997 and most of 1998. Asia was in economic ruins. Millions of consumers were suddenly unable to purchase common staples, let alone luxury goods. Massive investment projects were either canceled or postponed, resulting in billions of dollars of lost revenue for U.S. firms. A region devoid of demand, drowning in excess capacity, and now competitively endowed with cheap currencies, was poised to obliterate U.S. global earnings.

Not for the first time, the dire predictions of Wall Street failed to match reality. While hardly immune to Asia's financial crisis, corporate America did not suffer nearly as much as many originally thought. To be sure, U.S. farmers watched their overseas markets for agricultural products shrivel and American steel manufacturers were inundated with cheap imports. Boeing was buffeted by a series of canceled orders from Asia. Notwithstanding these instances, the Asian financial aftershocks were far less violent and painful than feared since the economic linkages between the U.S. and Asia was never as great as many assumed. Transpacific linkages based on trade are relatively shallow in comparison to the deeper transatlantic linkages rooted in foreign direct investment. While U.S. foreign affiliate income from Asia plunged by nearly 40% in 1998 from the prior year, a significant portion of this decline was offset by the 5% rise in affiliate earnings in Europe, America's most important market as measured by investment.

In the end, President Clinton called the Asian meltdown "the biggest financial challenge facing the world in half a century." This, though, ultimately proved to be an overstatement. U.S. foreign affiliate earnings in aggregate dropped by only 13.5% in 1998 from the prior year, a decline not much greater than the peak-to-trough decline in affiliate earnings in the global recession of the early 1990s. Using foreign investment as a metric of global engagement, the Asian crisis was serious but not fatal to corporate America for the simple reason that America's investment exposure—and therefore global exposure—to the region was far less than investors realized or feared. Asia certainly matters to the bottom line of many U.S. firms. Europe, however, matters more.

The preferred mode of U.S. firms entering Europe was chiefly through mergers and acquisitions; in fact, U.S. M&A activity in Europe swelled from just $3.7 billion in 1990 to over $82 billion in 2000. Courtesy of this surge in M&A activity, corporate America's investment base in Europe was larger than ever as the 1990s came to a close. Ironically, globalization's reemergence in the 1990s was initially billed as a time when vast new markets would became accessible to U.S. multinationals. Consumers in Santiago, Chile or Seoul, South Korea were just as eager to open an account with Citigroup or visit McDonald's as consumers in San Antonio, Texas. But for multiple reasons, globalization has not panned out as many expected. Indeed, the data reviewed here suggest that the 1990s were not primarily about U.S. companies spreading their operations to the four corners of the globe. Rather, it was a time when the transatlantic economy became even more intertwined and interdependent through expanding FDI linkage. Failing to understand this dynamic, many in the U.S. thought that corporate America was doomed by the Asian financial crisis. Reality proved to be far different, however.

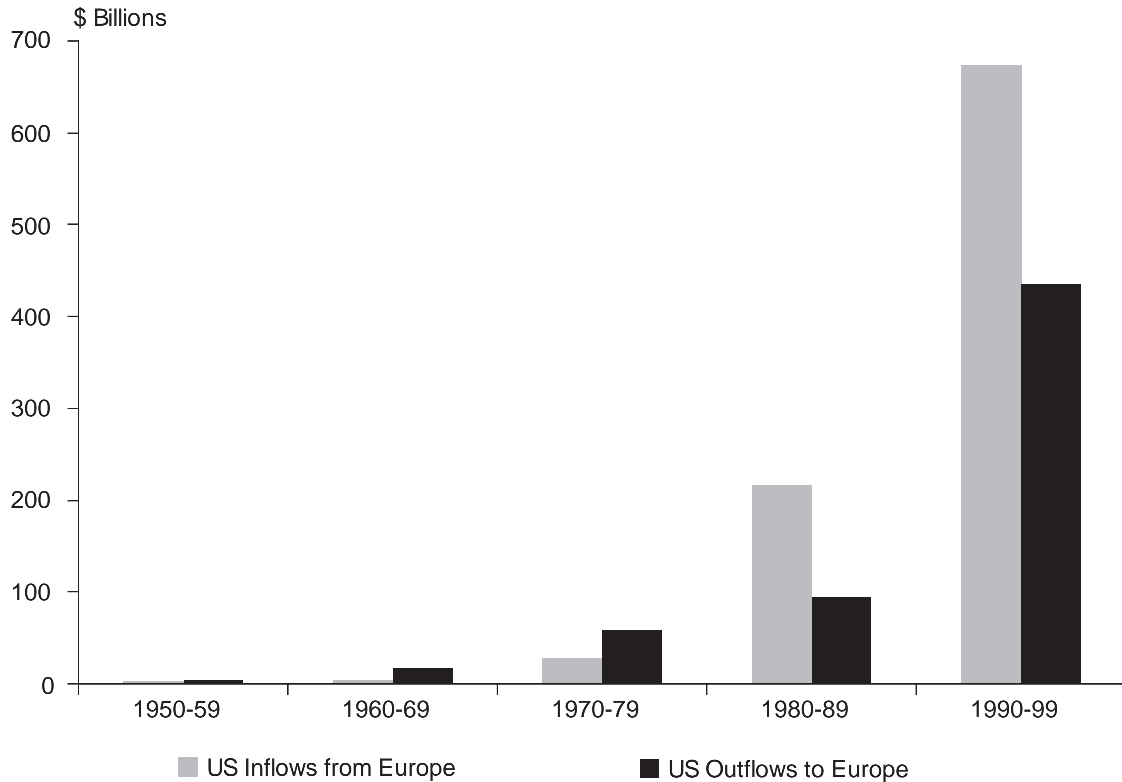
Europe's Investment Bias Towards the United States

The collapse of the Berlin Wall and the demise of communism opened new markets right in the backyard of Western Europe. European multinationals jumped at the opportunity. Europe's leading firms ploughed billions into Hungary, Poland and Czech Republic over the 1990s, drawn by the region's cheap labor, access to raw materials, and new market opportunities. Late in the decade, the possible accession of some nations to the EU sustained investment inflows to central Europe. Investment inflows to central Europe jumped to an annual average of over $18 billion in the second half of the decade, up from a yearly average of just $3.4 billion during the 1989-94 period. Inflows topped a record $25 billion in 2000, with investors from the European Union accounting for over 70% of the total. By the end of the decade, Germany had emerged as the top foreign investor in the Czech Republic and Hungary, while the Netherlands ranked as the number one investor in Poland.

Yet, despite Western Europe's investment push into central Europe over the 1990s, the amount of capital sunk in such places as Hungary, the Czech Republic and others pales in comparison to the amount of capital sent across the Atlantic over the same period. After averaging $22.2 billion over the first half of the 1990s, FDI inflows to the U.S. from Europe soared to an annual average of nearly $110 billion in the second half of the decade, marking one of the most explosive periods of inward foreign investment in U.S. history. For the entire decade, European firms ploughed some $659 billion into the United States, accounting for nearly three-quarters of total U.S. investment inflows over the 1990s.

Many variables were behind the rising tide of investment capital from Europe. As the largest and wealthiest market in the world, the U.S. was considered too important to neglect. As Krish Prabhu, chief operating officer of Alcatel, put it to the Financial Times in 1999, "So much of company strategy is driven out of the United States today. No serious player can afford not to have a presence there." In addition to market access, Alcatel and many other European firms entered the U.S. to obtain U.S. technological capabilities. Other firms crossed the Atlantic to gain greater market access in U.S. service sectors like utilities, financial services and telecommunications. The bulk of inflows took the form of mergers and acquisitions, which gave firms quick access to the U.S. market, immediate possession of U.S. technology, or both.

Diagram 5: U.S. - Europe FDI Flows



Source: Bureau of Economic Analysis (1) Cumulative capital flows for each period.

Transatlantic Mergers and Acquisitions

Led by the British, many of Europe's largest firms went on a buying binge in the U.S. like no other beginning in 1998. British Petroleum, for example, bought Amoco, Vodafone snagged Airtouch Communications and Daimler shocked Detroit when it anted up for Chrysler. Meanwhile, Random House became a subsidiary of Bertelsmann. Ahold, the Dutch grocery giant, acquired Giant Foods and many other U.S. grocers. Bankers Trust came under the ownership of Deutsche Bank, one of many U.S. financial firms swallowed by their European counterparts. On and on it went over the late 1990s, as the corporate captains of Europe sank billions into U.S. acquisitions out of fear of being left out of the most dynamic, richest and most innovative market in the world. In 1998, for instance, some 36 transatlantic M&A deals worth $1 billion were completed, with European firms the acquiring party in 25. Leading the charge were UK firms, acquirers in 12 of the corporate marriages. In 1999, another 36 M&A deals $1 billion or higher were consummated across the Atlantic, with European firms' acquirers in 27 deals. Again, British firms were at the forefront of the M&A surge, acquirers in 9 of the deals.

In 2000, the peak of the transatlantic M&A boom, 60 deals in excess of $1 billion were completed, with just over two-thirds (41) of the deals involving a European acquisition of an American target (see appendix). Again, British firms led the way (acquirers in 13 deals),

although there was greater participation in general, with Spanish, Italian, Danish and Swedish corporations participating in the climactic action. Of the 132 transatlantic deals in excess of $1 billion over 1998-2000, U.S. firms were targets in more than two-thirds of the deals. Of the 25 transatlantic mergers in 2001, U.S. firms were targets in 21 of the deals.

European acquisitions of U.S. targets totaled nearly $600 billion over the 1998-2000 period, boosting Europe's investment stake in the U.S. on an historical-cost basis to $835 billion in 2000, more than one-quarter larger than America's stake in Europe. As the new decade began, the foreign investment gap between the U.S. and Europe—U.S. investment in Europe versus Europe's investment in the U.S.—was never as wide and never so skewed in Europe's favor. That is another way of saying that following the transatlantic M&A boom, European firms were never before as exposed to the U.S. economy as in the new decade. So when the mighty U.S. economic expansion of the 1990s fizzled in 2001, Europe was far more exposed to the U.S. downturn than most expected.

Case Study III:

From Immunity to Despair—The U.S. Slowdown of 2001 and Its Impact on Europe

Trade statistics remain the standard benchmark by which countries measure their cross-border commerce. But nothing better illustrates the limits of such figures than the U.S. economic slowdown of 2001 and the widely held belief at the time that Europe was “immune” to such an event.

Rewind to 2001. As evidence of a U.S. slowdown mounts early in the year, Asia, Latin America and many other regions of the world dependent on the U.S. for export growth began to feel America’s pain. Notably exposed were America’s NAFTA partners, Mexico and Canada, given their extensive trade and investment linkages with the U.S. The tech-driven exporters of developing Asia (Taiwan, South Korea, the Philippines and Malaysia) were also at risk given their reliance on U.S. technology spending. As the U.S. economy decelerated over most of 2001, so did many trade-dependent economies in Asia and elsewhere.

Europe, in contrast to the rest of the world, was thought to have been relatively immune from the U.S. downturn since a trade-only analysis revealed a very low level of European exposure to the U.S. Based on trade, Europe was hardly in the same league as either Mexico or Canada, whose exports to the U.S. account for over 25%, respectively, of GDP. Euroland appeared to be insulated, since the U.S. accounted for only 2.2% of total output of Euroland. The percentages for Germany, Italy, and Switzerland were 2.6%, 1.9%, and 3.8%, respectively. French exports to the U.S. as a percentage of GDP were even less—1.7 percent. For the United Kingdom, the figure was higher at 3.3%, but nothing to be overly alarmed about. The lower the percentage, the greater the degree of isolation from a U.S. economic downturn—or so it seemed.

This logic proved to be false. A trade-only analysis of U.S.-European commercial linkages overlooked the massive investment presence of European firms in the U.S. and the late 1990’s boom in transatlantic M&A activity. It ignored the fact that Atlantic economic relations are rooted in foreign direct investment, with trade playing a secondary role. As such, the U.S. recession of 2001 was not transmitted to Europe via the traditional channels of trade, i.e. a downturn in European exports to the U.S. Rather, it was transmitted through European foreign affiliates operating in the U.S. Just as U.S. corporate earnings started to decline over the second half of 2000, so did the profits of many U.S.-based European affiliates. Whether in services, manufacturing or technology, the corporate earnings downturn in the U.S. spared no one. Accordingly, affiliate income earned by European affiliates in the U.S. fell 4.4% in the second half of 2000 from the corresponding period a year earlier. The following year, 2001, the earnings squeeze became far more intense given that the U.S. economy spent three quarters of the year in recession.

The early feeling of immunity to the U.S. recession morphed into despair in Europe over 2001 as the earnings of one European multinational after another was battered by the U.S. recession. Over the course of the year, German affiliates in the U.S. actually posted losses in excess of $6 billion, while Dutch affiliates suffered a 51% dive in U.S. affiliate income. All totaled, income of European affiliates in the U.S. plunged by 36% in 2001 from the preceding year, underscoring dramatically the fact that what's bad for the U.S. is also bad for corporate Europe, notably European firms with deep investment roots in the U.S.

Talk of European immunity to a U.S. downturn simply ignored the fact that the primary means by which European firms deliver goods and services to U.S. customers is via foreign affiliates, not trade. As an example, German U.S.-based foreign affiliate sales to the U.S. in 2000 were more than four times Germany's merchandise exports to the U.S. in the same year. Similarly, while the United Kingdom, the Netherlands, France, Switzerland and Belgium do not appear very exposed to the U.S. in terms of trade, the story was is quite different at the affiliate level.

U.S. imports from the United Kingdom totaled only $71 billion in 2000, less than half the level from China in the same year. But the trade figures obscure the corporate reach of British firms in the U.S. economy. A fixation on trade ignores the fact that UK firms hold over $734 billion in U.S. assets, that UK affiliates employ over 1.2 million U.S. workers, which helped generate some $363 billion in foreign affiliate sales in 2000. The latter figure was roughly four-and-a-half times higher than what the U.S. imported from the UK in the same year. When total sales of UK firms (affiliate sales plus U.S. imports from the UK) are combined, the percentage of total sales accounted for by foreign affiliate earnings was in excess of 80% in 2000. The same was true for Germany, the Netherlands, France, Switzerland and the European Union in general, rendering bilateral trade statistics all but useless when measuring the true level of commerce between the U.S. and European counterparts.

In the end, the U.S. economic slowdown had a far greater impact on Europe than many had expected. As the U.S. economy weakened in 2001, deteriorating earnings growth in the U.S. translated into deteriorating earnings and business confidence for numerous European companies, many which had just acquired U.S. assets in the M&A boom of the late 1990s. After ploughing billions into U.S. assets, with many investments made at the height of the U.S. stock market bubble, many European firms suddenly found themselves saddled with huge debt levels, negative rates of return from the U.S. and plunging share prices. Subsequently, many European firms were forced to slash capital spending levels and cut employment levels in both the U.S. and Europe. Not surprisingly, consumer confidence in Euroland has fallen alongside sagging business confidence, sapping the level of economic growth in Euroland over the near term. In short, far from being immune to a U.S. economic slowdown, the reality is that Europe, on account of its deep investment roots in the U.S., is far more exposed to U.S. economic conditions than any other region of the world.

After the Boom, Second Thoughts?

Over the 1998-2000 period Europe's investment stakes in the U.S. soared to unprecedented heights. But no sooner had European investors sunk billions into U.S. assets than the U.S. economy ran out of steam. Over the course of 2001 and into 2002, deteriorating economic conditions in the U.S. translated into weak affiliate earnings for many European multinationals and diminished returns for those European investors who piled into U.S. securities (Treasuries, agencies, corporate bonds and equities) in the late 1990s. The upshot is that European inflows to the U.S. (both FDI and portfolio) have declined dramatically over the past year.

On the corporate front, the same European executives who led the charge into the U.S. were suddenly put on the defensive in 2002. Indeed, a few high-profile European chief executive officers lost their jobs partly as a result of U.S. investments that went awry. At present, there is little doubt that the sentiment expressed by Mr. Prabhu of Alcatel just a few years ago—that no serious player cannot afford to be absent from the U.S. market—is passé, at least for now.

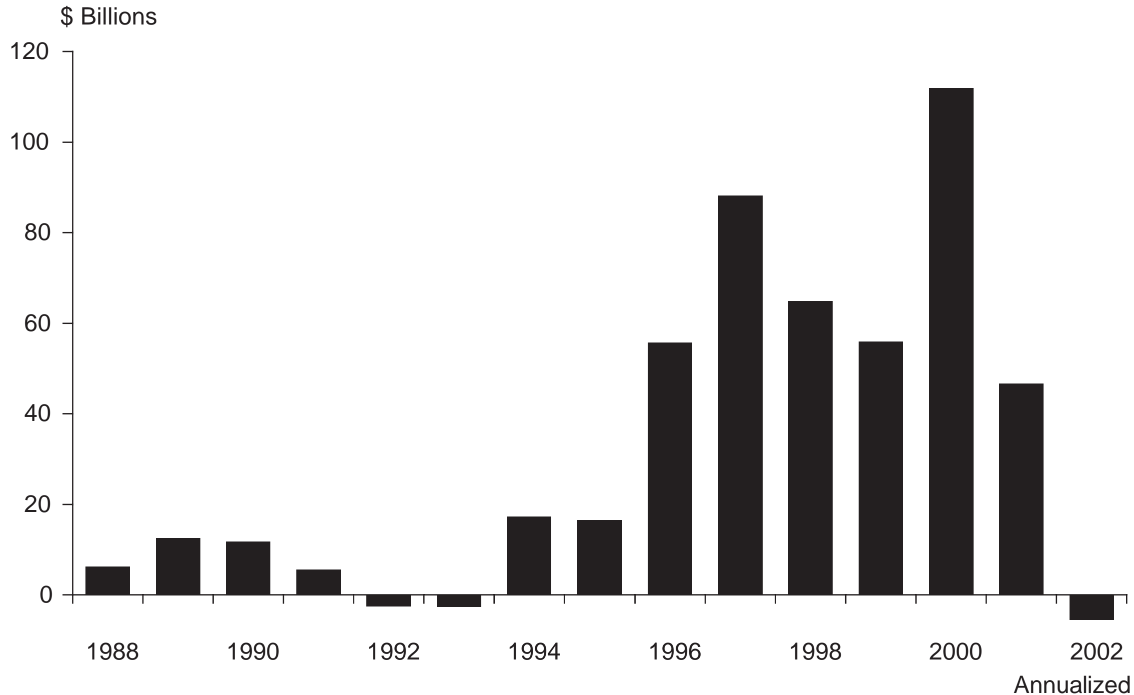
European firms are far more circumspect about U.S. acquisitions today, as evidenced by the steep downturn in European foreign direct investment inflows to the U.S. in 2002. Through the first nine months of 2002, FDI inflows from Europe totaled just $24 billion, down some 77% from the corresponding period of the prior year. Inflows averaged roughly $32 billion for the entire year, a fraction of the record levels recorded in 2000, when inflows reached nearly $240 billion. Preliminary data for 2002 indicate that European M&A activity was directed at Europe itself last year, with less interest expressed towards the U.S.

Similarly, European investors have become less enamored of U.S. assets like U.S. treasuries, corporate bonds and U.S. equities. Euroland investors, for instance, were net sellers of U.S. securities through the first ten months of 2002, selling off over nearly $5 billion in U.S. assets. In contrast, Euroland investors were net buyers of $50 billion in U.S. assets in 2001, following record net purchases of $111 billion in 2000.

All told, the U.S. transatlantic economic recession of 2001 has taken its toll on both FDI and portfolio flows. That is not unusual in that recessions or economic downturns typically depress cross-border capital flows in the near term. The U.S. recession of the early 1990s, for instance, triggered an ensuing two-year downturn in European inflows (both FDI and portfolio). Accordingly, reduced inflows from Europe in the near term should not be directly correlated to the multiple headwinds currently buffeting the transatlantic economy. The baseline assumption of this study is that the investment downturn is more of a cyclical event, reflecting weak transatlantic earnings, fragile growth and slumping equity prices, as opposed to a full-scale, structural retreat from the U.S. on the part of Europe, or vice versa.

Having said that, the multiple stress points weighing on the transatlantic relationship could trigger a rethink on the part of both parties should they be mismanaged or be allowed to fester for too long. So too could other trends and developments outside the transatlantic economy. For instance, a more dynamic China—which attracted more foreign direct investment than the U.S. last year—could trigger a shift in transatlantic flows, away from the U.S. and Europe, and towards China. A more dynamic Central Europe could have a similar effect and result in a shift in capital flows and investment stock from west to east within and enlarged Europe.

Diagram 6: Net Euroland purchases of U.S. Securities 1998-2002



Source: U.S. Treasury

Case Study IV:

What Would British Entry into Euroland Mean for the United States ?

Britain's potential entry into the European Monetary Union represents a landmark decision not only for the nation and Europe. It is also of great significance to the United States since no country in the world is as important to the bottom line of corporate American as the United Kingdom.

Notwithstanding all the talk about cheap labor in Mexico and China, and the corresponding shift in U.S. production to these low-cost venues, the fact remains that Britain, by a huge margin, has been the preferred foreign destination of U.S. firms for the past 40 years. The UK was at the forefront of America's great overseas investment boom of the 1990s, attracting just over 20% of total U.S. FDI over the period. The Netherlands ranked a distant second, accounting for 8.4% of the total.

In 2001, Britain consumed nearly 12% of all U.S. foreign investment and took virtually one-quarter of total investment in Europe. America's global investment roots, in other words, are deepest in the UK, a transatlantic bond spawned and bolstered over the

decades by a common language, a similar legal framework, and above all, a convergence in business cultures. As one of the standard-bearers of the Anglo-Saxon model of capitalism, Britain has been a natural location for American firms to build an investment stake.

Of America's $2.8 trillion asset base (of majority-owned U.S. affiliates) in the European Union in 2000, the last year of available data, nearly 45% was anchored in Britain. Relative to the rest of the world, America's asset base in the UK was almost equivalent to the combined overseas affiliate asset base of developing Asia, Latin America, Africa and the Middle East. U.S. foreign affiliates in Britain now generate more output per year than most countries: Their gross product amounted to $110 billion in 2000, more than the total output of such medium-income nations as Chile, the Philippines and Singapore. In terms of employment, majority-owned U.S. foreign affiliates employed over 3.3 million workers in the European Union in 2000, with one in three in the UK. While many in the U.S. fret over U.S. jobs being lost to China and Mexico, few realize that the more than 1 million UK workers on the payrolls of U.S. foreign affiliates are almost five times the number of workers toiling for U.S. affiliates in China. In manufacturing, U.S. overseas affiliates employed nearly 432,000 workers in the UK in 2000, more than double the number employed in China.

Britain also ranks number one in U.S. foreign affiliate sales, with sales of majority-owned affiliates totaling $397 billion in 2000, well in excess of total affiliate sales in Latin America ($295 billion) and developing Asia ($286 billion) in the same year. Finally, the UK tops all the other markets in the world where it matters most—U.S. overseas earnings. U.S. affiliate earnings from Britain tallied $12 billion in 2001, slightly less than total affiliate earnings from all developing Asia and nearly double the earnings generated from Latin America. Globally, Britain accounted for nearly 13% of total U.S. foreign affiliate earnings over the 1990-01 period and nearly for 27% of the European total.

Given the above, American investors and policy makers should have more than a passing interest in whether or not the UK opts to join the euro zone. Adopting the euro would promote cross-channel trade, investment flows, and greater economic convergence between Britain and Euroland. All these factors would contribute to European growth and benefit U.S. firms, which view Britain not only as a wealthy market in itself, but also as a springboard to continental Europe. In particular, British entry into the euro zone would bolster links between U.S. foreign affiliates on both sides of the English Channel, helping U.S. firms to leverage their pan-European operations. The bottom line is that America has a vested interest in whether or not Britain joins the EMU. Unfortunately, many in the U.S. do not see the connection.

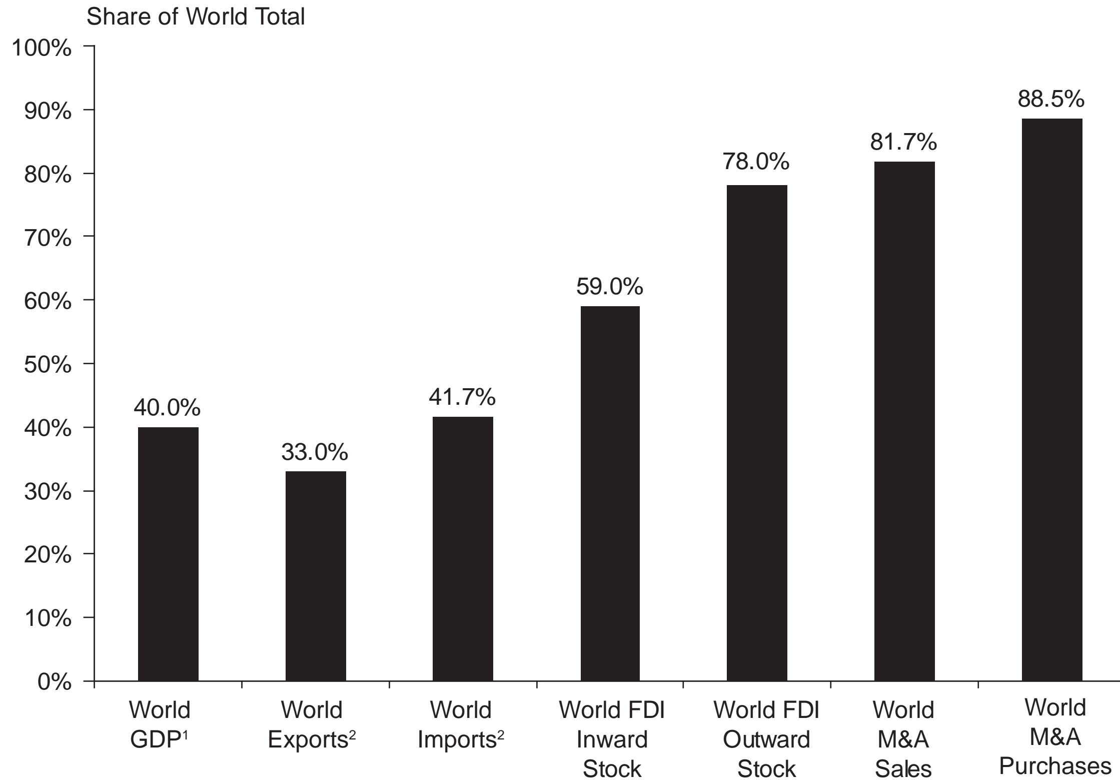
A Look Ahead: Is the Past Prologue?

There is nothing preordained about the primacy of the transatlantic economy, and many questions loom large regarding the future. Will the United Kingdom maintain its unique role as the number one market in the world for U.S. multinationals? Will America's overseas investment position still be overwhelmingly biased toward Europe in 2025 or even 2010 given the fragile economic state of Europe? Conversely, will the bulk of European investment flows still be directed at the U.S.? Will either party find common ground and interest with another region of the world (i.e., Asia in general, China in particular) that ultimately leads to a scaling back or a downgrading of transatlantic linkages? Will policy initiatives (a.k.a. the Sarbanes-Oxley Act) or trade disputes (over such issues as genetically modified organisms or Foreign Sales Corporations) drive a permanent wedge in relations?

Given the current acrimony between the U.S. and Europe, it's tempting to make the case that the transatlantic economy has entered its twilight, that the decade of intense economic integration in the 1990s was more an historical anomaly (a financially-induced bubble) than a continuing trend; that the next decade will be a time of stagnation—or worse, decline—for the transatlantic economy. Proponents of the latter view believe Europe's future lies to the east, in central Europe, through the formal process of enlargement. Many argue that enlargement represents Europe's most logical counterweight to the U.S. economy and should therefore be cultivated and nurtured in both political and economic terms. Others argue that the Euro and the financial deepening of Europe will help Europeans blunt pressures from the United States and allow Europe to emerge as a legitimate and political alternative to the U.S. Elsewhere, given anti-U.S. sentiment in the Middle East and much of Africa, many have urged the European Union to ignore U.S. interests and forge ahead with its own economic and political designs for the region, independent of the United States. Meanwhile, many claim that the future lies in China, requiring an attendant shift in transatlantic resources toward the Middle Kingdom.

In the United States, meanwhile, there is mounting sentiment that Europe will always lag behind the U.S. economy, and that Europe needs America more than America needs Europe. In terms of global security, there are louder voices in the U.S. today arguing that Europe is less of a partner today and more of a prop. On both sides of the Atlantic, there appears to be an unwinding of mutual respect across a host of issues ranging from economics and defense to human rights and "nation-building."

Despite the sour and strained mood on both sides of the Atlantic, the common ground between the U.S. and Europe is still fertile for further economic integration. The macro and micro policies of the U.S. and Europe are more aligned than unaligned. The dynamics that drove the two parties closer together in the 1990s—industry deregulation, technological convergence, financial market liberalization and common business values—remain largely intact on both sides of the ocean, and by and large are still the de facto global norm. Of course U.S. and European firms are economic rivals. But so many have fused it is difficult for consumers and policy makers to tell whether they are "European" or "American". Moreover, for workers and consumers, economics is not a zero-sum game. If Europe grows, Americans prosper. If Europe builds a large single market without barriers to commerce, Americans profit. Since the European market is so large, a 2% growth rate there would create a new world market bigger than Taiwan. While



Source: UN, IMF, Official Government sources, figures for 2001
(1) Based on PPP estimates, (2) Excluding intra-EU trade

transatlantic trade disputes steal the headlines, it should be kept in mind that trade accounts for less than 20% of transatlantic commerce (trade plus foreign affiliate sales).

A great deal of heavy lifting is required from both parties. Corporate governance, tax harmonization, financial regulatory standards—these are just a few micro issues that need attention and action. Add to this brew U.S.-European differences over drug patents to the developing world and the bitter bilateral dispute over genetically modified food. Antitrust legislation is another area of conflict, although the establishment of the "U.S.—EU Merger Working Group" could serve as a model for future attempts at resolving the various. issues that bedevil relations.

As for the enlargement of the European Union, the complexities of the process no doubt give the impression that Europe is tending more to affairs at home than abroad. But the steady, incremental integration of central Europe within the EU Single Market should make Europe that much more attractive to U.S. multinationals, prompting healthy levels of U.S. capital inflows to Europe. Meanwhile, unfettered capital flows gravitate toward the world's most attractive returns; if the U.S. economy outperforms the industrialized nations over the long haul, European investors are likely remain attracted to U.S. assets, notwithstanding the recent downturn in capital flows.

While the past is hardly prologue, our base case is that transatlantic ties bend but do not break under the multiple strains of today, that the U.S. and Europe remain mutually dependent on each other regarding trade and investment flows. These assumptions, however, do not preclude the prospect of stronger trade and investment flows to non-Atlantic parties over the next decade. Indeed, it assumes such a scenario.

On the hopeful assumption that central Europe blossoms into a vibrant free-market economy, that China becomes an engine of growth in Asia, and that Latin America finds a sustainable growth path—against this backdrop, it would be quite natural for future U.S. and European trade and investment flows to shift, albeit modestly, toward these new regional growth centers. This shift will mark a new phase in the transatlantic economy, as both parties vie for political and commercial influence in Asia, central Europe, Latin America and others parts of the world.

Conclusion: The Primacy of the Transatlantic Economy

Only after analyzing the macro and micro dynamics of the transatlantic economy does one begin to understand how intertwined the U.S. and Europe have become over the past half-century. By a wide yet not fully appreciated margin, Europe is the most important commercial market in the world for corporate America. The region is not only a critical source of revenue for such blue-chip stalwarts as IBM, General Electric and Ford Motor. It is also a key supplier of capital or liquidity for the debt-stretched United States, which presently must borrow over $1.4 billion a day to finance its current-account deficit. None of this should be lost on U.S. policy makers.

For its part, many of Europe's largest firms are more at home in the United States than in Europe itself. As the U.S. recession of 2001 made all too clear, what's painful for the U.S. can be just as painful for corporate Europe. This is not only true for European firms with extensive operations in the U.S., but also true for thousands of Europe investors who presently own U.S. Treasuries, corporate bonds and U.S. stocks. Like their U.S. counterparts, the last thing many European companies and investors need is a transatlantic divorce that undermines the value of their U.S. investments. As Daniel Hamilton has commented,

> "Our societies have become so intertwined that in a number of specific areas Europeans and Americans have transcended "foreign" relations. We have moved into a new frontier in which specific social and economic concerns and transnational actors often jump formal borders, override national policies, and challenge traditional forms of governance throughout the Atlantic world. The networks of interdependence being created across the Atlantic have become so dense, in fact, that they have attained a quality far different than those either continent has with any other. We have only begun to understand the many dimensions of this phenomenon."

Neither party can afford a transatlantic split. Nor can the rest of the world. Should the U.S. and Europe become regional antagonists rather than global collaborators, the global economy will suffer as a consequence. In that the U.S. and Europe combined account for roughly 40% of world GDP and over one-third of global trade, transatlantic disputes invariably taken on global dimensions. Without U.S.-European cooperation, the new global trade round launched at Doha could fail. Aid and assistance to the developing nations—notably Africa—will flounder. Europe's enlargement process could become more fractious, as evident by the most recent split between "Old" Europe and "New" Europe regarding America's intent to wage war with Iraqi. When elephants dance, in other words, others stand to be crushed.

Moreover, the significance of a transatlantic split goes beyond the global economy. A serious rift would compromise and undermine bilateral cooperation in other areas that require

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[1] See his keynote speech at the opening of the Washington, D.C. office of the German Research Society (*Deutsche Forschungsgemeinschaft*), September 17, 2002; Also Daniel Hamilton, Die Zukunft ist nicht mehr, was sie war: Europa, Amerika, und die neue strategische Landschaft (Stuttgart: Robert Bosch Stiftung, 2001)

U.S.-European collaboration, rather than competition. The range of global issues that require U.S.-European leadership ranges from the war on terrorism, talks on climatic change, peace in the Middle East, the proliferation of weapons of mass destruction and rising nuclear tensions on the Korean peninsula. In the end, cracks in the transatlantic economy represent a clear and present danger to the U.S., Europe and the global economy. The sooner opinion leaders on both sides of the Atlantic come to recognize this dynamic, the better for all concerned.

Appendix

1. **The Ties that bind—Top ten FDI Destinations and Investors**
2. **America's FDI Roots in Europe**
3. **Europe's FDI Roots in the U.S.**
4. **U.S. FDI in China and Europe**
5. **Global Engagement: Foreign Affiliate Sales vs. Trade**
6. **Related Party Trade 2001**
7. **Transatlantic M& A Deals 2000**
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9. **Transatlantic M& A Deals 1998**
10. **Interregional Internet Bandwidth**

The Ties That Bind

US FDI by Country, Top Ten Destinations, 2001

(% share in historic cost basis)

Rank	Country	% Share
1	United Kindgom	18.0%
2	Canada	10.1%
3	Netherlands	9.5%
4	Japan	4.6%
5	Switzerland	4.6%
6	Germany	4.4%
7	Mexico	3.8%
8	Belgium/Luxembourg	3.6%
9	France	2.8%
10	Brazil	2.6%
	Total	64.1%

FDI Position in US, Top Ten Investors, 2001

(% share in historic cost basis)

Rank	Country	% Share
1	United Kindgom	16.5%
2	Japan	12.0%
3	Netherlands	12.0%
4	Germany	11.6%
5	France	11.1%
6	Switzerland	9.5%
7	Canada	8.2%
8	Belgium/Luxembourg	4.2%
9	Ireland	2.1%
10	Sweden	1.8%
	Total	89.0%

Source: Bureau of Economic Analysis

America's Roots in Europe

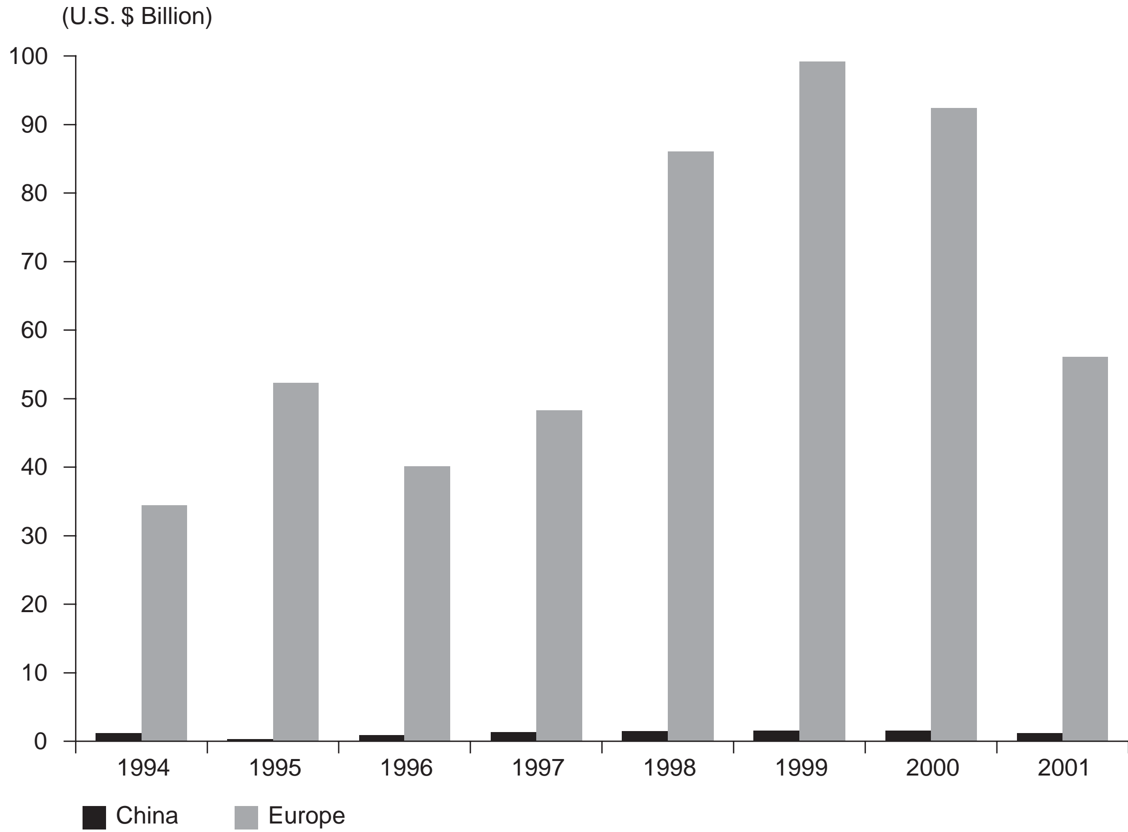
US$ Billions	US FDI to Europe	% of US Total
European Total	725.8	52.5
Petroleum	28.2	31.0
Manufacturing	204.3	54.3
Food Products	18.2	51.3
Chemicals	76.0	70.0
Primary Metals	11.0	51.0
Industrial Machinery	31.9	61.0
Electric and Equipment	21.2	44.0
Transportation	11.3	29.0
Other Manufacturing	34.7	49.0
Wholesale	51.3	55.2
Banking	25.2	51.1
Finance (ex. Banks)	320.6	56.0
Services	50.6	58.5
Other	45.5	44.5

Europe's FDI Roots in the US

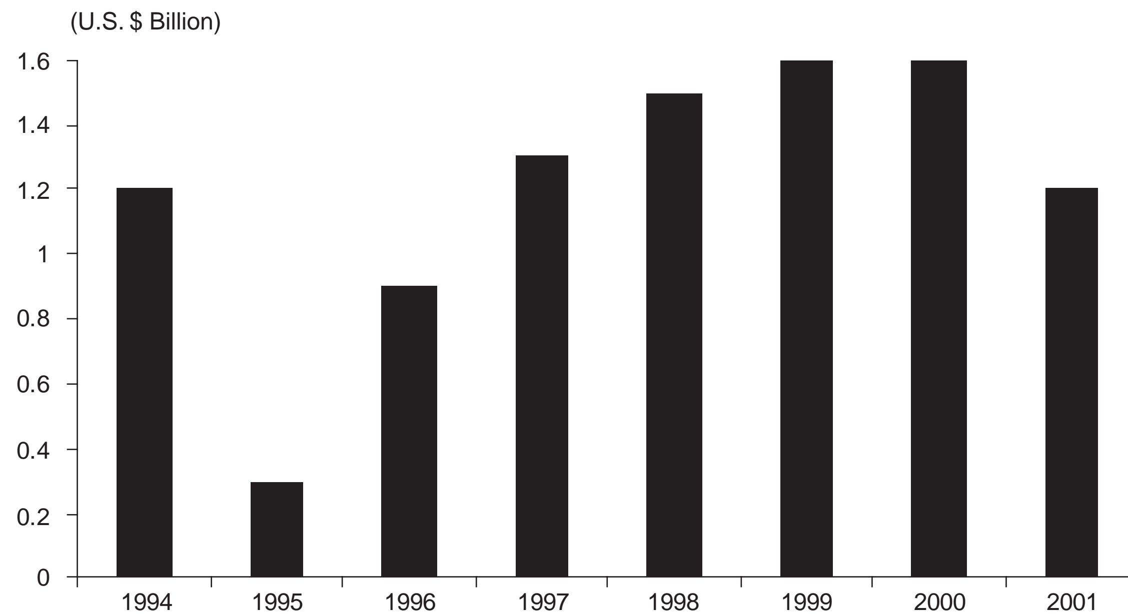
US$ Billions	US FDI from Europe	% of US Total
Total from Europe	946.8	71.7
Petroleum	80.0	83.4
Manufacturing	396.6	78.0
Food Products	17.6	73.9
Chemicals	119.2	93.3
Primary Metals	19.1	74.3
Machinery	116.9	70.3
Other Manufacturing	123.8	74.7
Wholesale	49.0	43.3
Retail	30.5	85.2
Banking	56.6	72.5
Finance (ex. Banks)	43.0	50.0
Insurance	96.4	80.0
Real Estate	16.1	36.2
Services	91.5	72.8
Other	87.0	76.6

Note: Historic-cost basis, 2001
Source: Bureau of Economic Analysis

U.S. FDI in China and in Europe (U.S. $ Billion)



U.S. FDI in China (U.S. $ Billion)



Source: Bureau of Economic Analysis

Global Engagement: Foreign Affiliate Sales vs. Trade

U.S.$ Billions, 2000	**U.S. Foreign Affiliate Sales vs. Trade**
Global Affiliate Sales of U.S.	2891.5
Total U.S. Exports	1064.2
Total Affiliate Sales in U.S.	2334.7
U.S. Imports	1442.9
U.S.$ Billions, 2000	**Foreign Affiliate Sales vs. Trade with Europe**
U.S. Affiliate Sales in Europe	1438.6
U.S. Exports to Europe	283.7
European Affiliate Sales in U.S.	1420.1
U.S. Imports from Europe	336.9

Source: Bureau of Economic Analysis

Related Party Trade 2001

	US Imports: Related Party Trade as % of Total	US Exports: Related Party Trade as % of Total
European Union	54	30
France	39	27
Germany	66	30
Netherlands	53	41
UK	48	26
Other EU	52	29

Source: US Census Bureau

Transatlantic M&A Deals Completed in 2000

	Value ($ bn)	Acquiring company	Home economy	Target company	Host economy
1	27.2	BP Amoco PLC	United Kingdom	ARCO	United States
2	25.1	Unilever PLC	United Kingdom	Bestfoods	United States
3	16.5	UBS AG	Switzerland	PaineWebber Group Inc	United States
4	11.8	Cap Gemini SA	France	Ernst & Young-Consulting Bus.	United States
5	11.0	NTL Inc	United States	CWC ConsumerCo	United Kingdom
6	8.3	America Online Inc	United States	AOL Europe, AOL Australia	Germany
7	7.7	Chase Manhattan Corp	United States	Robert Fleming Holdings Ltd	United Kingdom
8	7.6	ING Groep NV	Netherlands	Aetna-Fin'l Svcs & Int'l Bus.	United States
9	6.2	Terra Networks (Telefonica SA)	Spain	Lycos Inc	United States
10	6.0	ING Groep NV	Netherlands	ReliaStar Financial Corp	United States
11	5.4	PowerGen PLC	United Kingdom	LG&E Energy Corp	United States
12	5.0	British Telecom.	United Kingdom	AT&T-Worldwide Assets, Ops	United States
13	5.0	WPP Group PLC	United Kingdom	Young & Rubicam Inc	United States
14	4.9	Stora Enso Oyj	Finland	Consolidated Papers Inc	United States
15	4.3	France Telecom SA	France	Global One Co	United States
16	4.3	Sema Group PLC	United Kingdom	LHS Group Inc	United States
17	4.2	Nat'l Grid Group PLC	United Kingdom	New England Electric System	United States
18	3.9	BASF AG	Germany	American Cyanamid Agri Prod.	United States
19	3.7	NTL Inc	United States	Cablecom Holding AG	Switzerland
20	3.6	Koninklijke Ahold NV	Netherlands	US Foodservice Inc	United States
21	3.6	Corning Inc	United States	Pirelli SpA-Optical Components	Italy
22	3.4	Rodamco N. Amer. NV	Netherlands	Urban Shopping Centers Inc	United States
23	2.8	Investor Group	United States	Deutsche Telekom AG-North	Germany
24	2.8	Havas Advertising SA	France	Snyder Communications	United States
25	2.7	Ford Motor Co	United States	Land Rover (BMW)	United Kingdom
26	2.5	Dexia Belgium	Belgium	Finl Security Assurance Hldgs	United States
27	2.5	Pearson PLC	United Kingdom	National Computer Systems Inc	United States
28	2.5	Bayer AG	Germany	Lyondell Chemical-Polyils Bus	United States
29	2.4	General Motors Corp	United States	Fiat Auto SpA (Fiat SpA)	Italy
30	2.3	Unilever NV	Netherlands	Slim-Fast Foods Co	United States
31	2.2	Salomon Smith Barney Hldgs	United States	Schroders-Worldwide Investment	United Kingdom
32	2.2	CDC Asset Mgmt Europe	France	NVESt LP	United States
33	2.2	Investor Group	United Kingdom	Mark IV Industries Inc	United States
34	2.2	Thomson–CSF	France	Racal Electronics PLC	United Kingdom
35	2.1	Cisco Systems Inc	United States	Pirelli-Fibre Optic Operations	Italy
36	2.0	Rexam PLC	United Kingdom	American National Can Group	United States
37	1.9	Allianz AG	Germany	PIMCO Advisors Holdings LP	United States
38	1.8	Suez Lyonnaise des Eaux SA	France	United Water Resources Inc	United States
39	1.8	Alcatel SA	France	Genesys Telecommun Labs	United States
40	1.8	Koninklijke Numico NV	Netherlands	Rexall Sundown Inc	United States
41	1.7	Elan Corp PLC	Ireland	Dura Pharmaceuticals Inc	United States
42	1.6	Nationwide Mutual Insurance Co	United States	Gartmore Investment Mgmt	United Kingdom
43	1.6	BP Amoco PLC	United Kingdom	Vastar Resources Inc	United States
44	1.6	Spirent PLC	United Kingdom	Hekimian Labs Inc	United States
45	1.5	Adecco SA	Switzerland	Olsten Corp	United States
46	1.5	Cadbury Schweppes PLC	United Kingdom	Snapple Beverage Group Inc	United States
47	1.4	Corning Inc	United States	Siemens AG-Optical Fiber, Cable	Germany
48	1.3	Intel Corp	United States	Giga A/S (NKT Holding)	Denmark
49	1.2	Reliant Energy	United States	Energieproduktiebedrijf UNA NV	Netherlands
50	1.2	Unicredito Italiano	Italy	Pioneer Group Inc	United States
51	1.2	Investor Group	Germany	Fairchild Aerospace Corp	United States
52	1.2	GN Store Nord A/S	Denmark	Photonetics SA	France
53	1.2	Morgan Stanley Real Estate	United States	Fonspa-Non-Performing Loans	Italy
54	1.2	K-L Holdings Inc (KKR)	United States	Laporte-Non-Specialty Organic	United Kingdom
55	1.1	Danzas Holding AG	Switzerland	Air Express Int'l Corp	United States
56	1.1	Allianz AG	Germany	PIMCO Advisors LP	United States
57	1.1	Danone Group	France	McKesson Water Products Co	United States
58	1.1	Diamond Technology Partners	United States	Cluster Consulting	Spain
59	1.0	Koninklijke Philips Electronic	Netherlands	MedQuist Inc	United States
60	1.0	Wengen Acquisition PLC	United States	Wassall PLC	United Kingdom

Source: United Nations

Transatlantic M&A Deals Completed in 1999

	Value ($ bn)	Acquiring company	Home economy	Target company	Host economy
1	60.3	Vodafone Group PLC	United Kingdom	AirTouch Communications	United States
2	12.6	Scottish Power PLC	United Kingdom	PacifiCorp	United States
3	10.8	Aegon NV	Netherlands	TransAmerica Corp	United States
4	9.1	Deutsche Bank AG	Germany	Bankers Trust New York Corp	United States
5	7.7	HSBC Hldgs PLC	United Kingdom	Republic New York Corp, NY	United States
6	6.8	TRW Inc	United States	LucasVarity PLC	United Kingdom
7	6.5	Ford Motor Co	United States	Volvo-Worldwide	Sweden
8	6.3	Vivendi SA	France	United States Filter Corp	United States
9	6.2	New Holland (New Holland Hldg)	Netherlands	Case Corp	United States
10	4.8	Roche Holding AG	Switzerland	Genentech Inc	United States
11	4.2	GEC PLC	United Kingdom	FORE Systems Inc	United States
12	4.1	Suez Lyonnaise des Eaux SA	France	Nalco Chemical Co	United States
13	3.0	AES Corp	United States	National Power Drax Ltd	United Kingdom
14	2.8	Fortis AG	Belgium	American Bankers Ins Group Inc	United States
15	2.8	Verenigd Bezit VNU	Netherlands	Nielsen Media Research Inc	United States
16	2.8	Huntsman ICI Holdings LLC	United States	ICI-Polyurethane, Titanium Dio	United Kingdom
17	2.5	Koninklijke Numico NV	Netherlands	General Nutrition Companies	United States
18	2.3	Buhrmann NV	Netherlands	Corporate Express Inc	United States
19	2.1	GEC PLC	United Kingdom	Reltec Corp	United States
20	2.1	Edison Mission Energy (Edison)	United States	PowerGen PLC-Power	United Kingdom
21	1.9	El du Pont de Nemours and Co	United States	Herberts Paints (Hoechst AG)	Germany
22	1.9	NTL Inc	United States	Diamond Cable	United Kingdom
23	1.8	Stagecoach Holdings PLC	United Kingdom	Coach USA Inc	United States
24	1.8	Alcatel SA	France	XYLAN Corp	United States
25	1.8	News Corp Ltd	Australia	Fox/Liberty Networks	US
26	1.5	EMAP PLC	United Kingdom	Petersen Companies Inc	United States
27	1.5	Getronics NV	Netherlands	Wang Laboratories	United States
28	1.4	Royal & Sun Alliance Insurance	United Kingdom	Orion Capital Corp	United States
29	1.2	Koninklijke Philips Electronic Netherlands	Netherlands	VLSI Technology Inc	United States
30	1.1	Accor SA	France	Red Roof Inns Inc	United States
31	1.1	Investor Group	United Kingdom	CBS Corp-Westinghouse	United States
32	1.1	Thyssen Aufzuege AG (Thyssen)	Germany	Dover Corp-Elevator Business	United States
33	1.1	RAG Int'l Mining Gmbh	Germany	Cyprus Amax-US Coal	United States
34	1.1	Tyco Int'l Ltd	United States	Siemens Electromechanical	Germany
35	1.1	Dyckerhoff AG	Germany	Lone Star Industries	United States
36	1.0	Havas SA (Vivendi SA)	France	Cendant Software Corp	United States

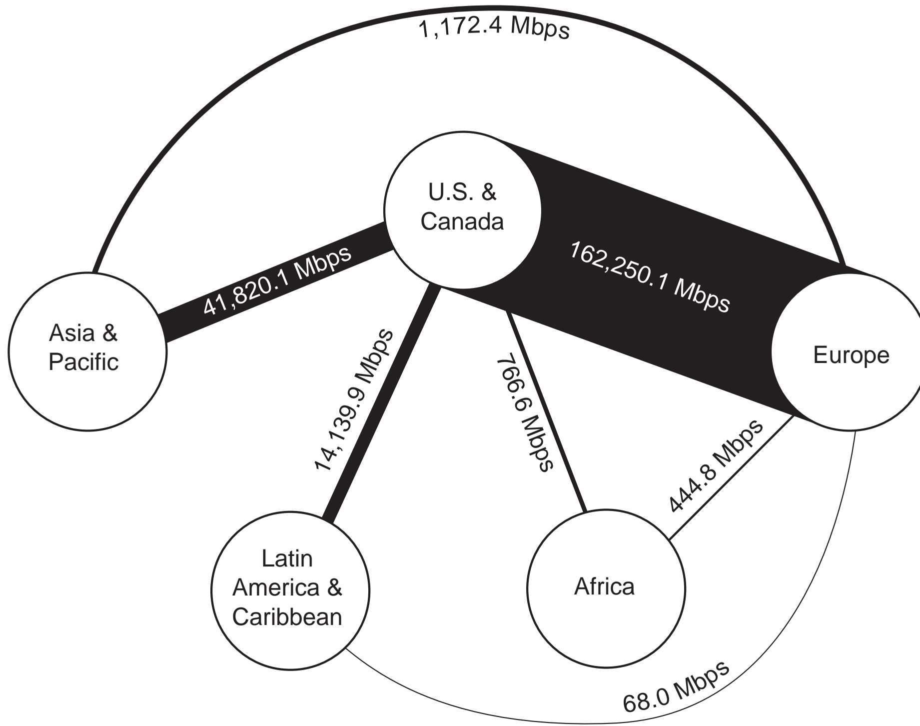
Source: United Nations

Transatlantic M&A Deals Completed in 1998

	Value ($ bn)	Acquiring company	Home economy	Target company	Host economy
1	55.0	British Petroleum Co PLC (BP)	United Kingdom	Amoco Corp	United States
2	40.5	Daimler-Benz AG	Germany	Chrysler Corp	United States
3	12.6	Scottish Power PLC	United Kingdom	PacifiCorp	United States
4	10.3	Universal Studios	United States	PolyGram NV (Philips Electrn)	Netherlands
5	9.1	Deutsche Bank AG	Germany	Bankers Trust New York Corp	United States
6	8.8	Texas Utilities Co	United States	Energy Group PLC	United Kingdom
7	6.1	Astra AB	Sweden	Astra Merck Inc (Merck & Co)	United States
8	5.1	Alcatel Alsthom CGE	France	DSC Communications Corp	United States
9	5.0	British Telecomm-Worldwide Ast	United Kingdom	AT&T-Worldwide Assets, Ops	United States
10	4.6	Pearson PLC	United Kingdom	Simon & Schuster-Educ, Prof	United States
11	3.8	National Grid Co PLC	United Kingdom	New England Electric System	United States
12	2.8	Koninklijke Ahold NV	Netherlands	Giant Food Inc	United States
13	2.4	Enron Corp	United States	Wessex Water PLC	United Kingdom
14	2.1	Marsh & McLennan Cos Inc	United States	Swedgwick Group PLC	United Kingdom
15	2.1	Boston Scientific Corp	United States	Schneider Worldwide	Switzerland
16	1.9	Bacardi Corp	United States	Diageo-Dewar's, Bombay Gin	United Kingdom
17	1.9	El du Pont de Nemours and Co	United States	Herberts Paints (Hoechst AG)	Germany
18	1.9	Coca-Cola Co	United States	Cadbury Schweppes-Soft Drinks	United Kingdom
19	1.9	NTL Inc	United States	Diamond Cable Communications	United Kingdom
20	1.9	Framatome Connectors Intl	France	Berg Electronics Corp	United States
21	1.8	Swiss Reinsurance Co	Switzerland	Life Re Corp	United States
22	1.8	Cable & Wireless PLC	United Kingdom	MCI Communications Corp-Whl	United States
23	1.7	Valeo SA	France	ITT Inds-Automotive Electrical	United States
24	1.6	Texas Utilities Co	United States	Energy Group PLC	United Kingdom
25	1.4	EMAP PLC	United Kingdom	Petersen Companies Inc	United States
26	1.4	Ispat International	Netherlands	Inland Steel Co	United States
27	1.4	Reed Elsevier PLC	United Kingdom	Matthew Bender & Co	United States
28	1.4	General Electric Co PLC	United Kingdom	Tracor Inc	United States
29	1.3	Cendant Corp	United States	National Parking Corp Ltd	United Kingdom
30	1.3	Amvescap PLC	United Kingdom	Chancellor LGT Asset Mgmt	United States
31	1.3	Bertelsmann AG	Germany	Random House Inc	United States
32	1.2	Investor Group	United Kingdom	CBS Corp-Westinghouse Nuclear	United States
33	1.1	Bayer AG	Germany	Chiron Diagnostics Corp	United States
34	1.1	Thyssen Aufzuege AG (Thyssen)	Germany	Dover Corp-Elevator Business	United States
35	1.0	British Telecomm PLC	United Kingdom	Concert Commun (British, MCI)	United States
36	1.0	Havas SA (Vivendi SA)	France	Cendant Software Corp	United States

Source: United Nations

Interregional Internet Bandwidth, 2001



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