CHAPTER 5

EUROPEAN COUNTRIES: U.S.-Related Jobs, Trade and Investment

2016 promises to be a challenging year for the European Union. Ongoing sovereign debt crises in Greece and Portugal, terrorism in the streets of Paris and other European cities, RU.S.sian aggression in Ukraine, a staggering refugee crisis, the prospects of the United Kingdom leaving the Union—all of these dynamics have emerged to challenge the unity of the European Union and test the commitment of Corporate America to one of the largest economic blocs in the world.

Summing up the difficulties of Europe, Jean-Claude Juncker, President of the European Union, may have put it best: *"There is not enough Europe in the Union. And there is not enough Union in the Union."*

That said, there is plenty of Corporate America in both Europe and the European Union: Europe remained one of the most attractive regions of the world for U.S. foreign investment again in 2015.

We estimate that U.S. FDI outflows to Europe in 2015 totaled $185 billion, a 7.7% rise from the $171.8 billion registered in 2014. Since hitting a post-crisis peak of $235 billion in 2011, U.S. FDI outflows to Europe have increased four consecutive years. On a global basis, in contrast, U.S. FDI outflows in 2015 were basically flat from a year earlier, totaling an estimated $316 billion for the year. The upshot: Europe accounted for a larger global share of U.S. FDI outflows in 2015—or nearly 60% of the total, up from 54% in 2014. The Asia-Pacific region represented jU.S.t 16.1% of the total, underscoring the bias and preference among U.S. firms for Europe versU.S. Asia. U.S. foreign direct investment in Asia declined by an estimated 6% in 2015 from a year ago, due in large part to plummeting levels of mining-related investment in AU.S.tralia.

However, while Europe remains the top destination for U.S. foreign investment, the headline figures don't tell the complete story. In a nutshell, U.S. investment in Europe—for a variety of reasons, ranging from the cost of labor to country-specific tax rates—is becoming more concentrated, with firms doing more activities in less locations across the region. For instance, in the first nine months of 2015, of total U.S. FDI outflows of $138.3 billion to Europe, five nations accounted for nearly 90% of the aggregate. The five nations in ranking order: the Netherlands, attracting $43.2 billion and 31.2% of total flows to Europe; Ireland ($27.3 billion and 19.7% of total); the United Kingdom ($25.3 billion and 18.3% of total); Luxembourg ($15.3 billion and 11%); and Switzerland ($12.4 billion and 9%). In 2014, these five nations accounted for over 100% of total U.S. FDI outflows to Europe.

U.S. investment flows to the Netherlands were up over 91% in the first nine months of 2015 from the same period a year ago, with the surge due in part to very weak numbers in Q1 2014, when the Netherlands reported a -$17 billion FDI outflows from the United States. Year-over- year comparisons, as a result, were much easier, although the Netherlands, acting as a strategic bridge to the European hinterland and a favorable tax regime, remains a perennial favorite among U.S. multinationals. The United Kingdom is another favorite destination of U.S. firms, with U.S. flows to the UK rising by nearly 20% in the first nine months of 2015. That said, the debate over (and prospects of) the nation leaving the European Union could cast a chill on U.S. flows to the nation over the short term. Total flows to Luxembourg also rose in 2015, increasing 13.3% over the January-September 2015 versus the prior year.

Ireland and Switzerland remain favored locations for multinationals in 2015, although flows to Ireland pulled back after surging in 2014, falling 34% in January-September 2015 from the corresponding period a year earlier. Over this period, Ireland attracted more U.S. FDI, save the Netherlands, than any other nation in Europe, a dynamic that reflects a number of variables including Ireland's flexible and skilled English-speaking labor force,

TABLE 1: U.S. FDI IN EUROPE: THE LONG VIEW (MILLIONS OF $, (-) INFLOWS)

	1990-1999		2000-2009		2010-3Q2014	
	$ Aggregate Total	% of Total	$ Aggregate Total	% of Total	$ Aggregate Total	% of Total
EUROPE	465,337		1,149,810		1,042,439	
Austria	2,908	0.6%	501	0.0%	8,064	0.8%
Belgium	12,028	2.6%	40,120	3.5%	7,519	0.7%
Czech Republic	42	0.0%	1,941	0.2%	2,694	0.3%
Denmark	2,798	0.6%	5,782	0.5%	11,541	1.1%
Finland	1,485	0.3%	1,598	0.1%	-85	0.0%
France	29,063	6.2%	42,963	3.7%	12,588	1.2%
Germany	31,817	6.8%	60,363	5.2%	16,532	1.6%
Greece	413	0.1%	943	0.1%	-747	-0.1%
Hungary	375	0.1%	1,376	0.1%	-737	-0.1%
Ireland	21,369	4.6%	115,085	10.0%	203,481	19.5%
Italy	13,825	3.0%	26,462	2.3%	5,459	0.5%
Luxembourg	14,246	3.1%	107,512	9.4%	185,184	17.8%
Netherlands	70,770	15.2%	295,889	25.7%	316,914	30.4%
Norway	4,198	0.9%	5,118	0.4%	11,797	1.1%
Poland	931	0.2%	4,699	0.4%	238	0.0%
Portugal	1,993	0.4%	2,212	0.2%	448	0.0%
Russia	1,555	0.1%	11,289	1.0%	-2,186	-0.2%
Spain	11,745	2.5%	28,371	2.5%	10,662	1.0%
Sweden	10,783	2.3%	2,472	0.2%	-9,474	-0.9%
Switzerland	32,485	7.0%	97,869	8.5%	64,258	6.2%
Turkey	1,741	0.4%	5,994	0.5%	3,342	0.3%
United Kingdom	175,219	37.7%	237,906	20.7%	184,480	17.7%
Other Europe	11,948	2.6%	16,471	1.4%	10,471	1.0%

Source: Bureau of Economic Analysis

membership in the European Union, low corporate tax rates, and pro-business policies. Add in Ireland's economic rebound, with the nation among the fastest growing economies in the world, and one of Europe's smallest economies emerged as one of the most attractive in the world for U.S. firms. Even when adjusting for U.S. FDI figures for flows of U.S. holding companies, Ireland still ranks as of the most attractive places in the world for U.S. businesses.

At the other end of the spectrum are Russia and numerous other European nations, where U.S. FDI inflows have declined over the past few years. U.S. investment in Russia was basically flat in 2015 following two years of decline given the imposition of sanctions on Russia following the Kremlin's annexation of the eastern Ukrainian territory of Crimea. Flows to Austria, Belgium, the Czech Republic and Finland were all down in the first nine months of 2015 from the corresponding nine months of 2014. Disinvestment flows were reported in Greece (-$89 million in the first nine months of 2015), Hungary (-$156 million), and Poland (-$81 million). Reflecting economic weakness in both Italy and Spain, U.S. FDI flows to the former plunged 48% in the first nine months of 2015, while dropping 22% in the latter. In general, weak levels of growth across southern Europe has forced U.S. firms to consolidate and rationalize their European operations, resulting in weak levels of investment or outright declines (disinvestment) in many nations.

TABLE 2: TOP 20 U.S. AFFILIATE SALES ABROAD BY DESTINATION* (MILLIONS OF $)

	1982		1990		2000		2013	
Rank	**Country**	**Value**	**Country**	**Value**	**Country**	**Value**	**Country**	**Value**
1	United Kingdom	33,500	United Kingdom	51,350	United Kingdom	94,712	Singapore	262,748
2	Switzerland	27,712	Canada	46,933	Canada	94,296	**Ireland**	**244,112**
3	Canada	25,169	Germany	41,853	Germany	69,522	Switzerland	214,125
4	Germany	19,117	Switzerland	38,937	Netherlands	67,852	United Kingdom	191,603
5	Netherlands	15,224	Netherlands	33,285	Singapore	56,961	Canada	149,524
6	Belgium	11,924	France	24,782	Switzerland	56,562	Germany	121,987
7	Singapore	11,579	Belgium	21,359	**Ireland**	**51,139**	Netherlands	118,834
8	France	11,255	Singapore	15,074	Mexico	37,407	Belgium	81,497
9	Indonesia	8,289	Hong Kong	9,951	France	35,797	Mexico	74,286
10	Hong Kong	4,474	Italy	9,562	Belgium	32,010	France	65,295
11	Italy	3,993	**Ireland**	**9,469**	Hong Kong	22,470	Hong Kong	57,438
12	Australia	3,710	Spain	7,179	Malaysia	16,013	China	51,691
13	**Ireland**	**2,842**	Japan	7,066	Sweden	15,736	Australia	40,393
14	United Arab Emirates	2,610	Australia	6,336	Italy	14,370	Brazil	37,355
15	Brazil	2,325	Mexico	5,869	Spain	12,928	Norway	29,837
16	Japan	2,248	Indonesia	5,431	Japan	11,845	Spain	27,270
17	Malaysia	2,046	Brazil	3,803	Australia	9,370	Malaysia	26,371
18	Panama	1,662	Norway	3,565	Brazil	8,987	Italy	26,341
19	Spain	1,635	Malaysia	3,559	China	7,831	Japan	24,642
20	Mexico	1,158	Nigeria	2,641	Norway	6,238	S. Korea	22,301
	All Country Total	**252,274**	**All Country Total**	**398,873**	**All Country Total**	**857,907**	**All Country Total**	**2,317,237**

Source: Bureau of Economic Analysis
**Destination = 3rd Market + Sales to U.S. for majority-owned foreign affiliates.*

In Europe's core—or France and Germany—U.S. foreign direct investment in 2015 remained mixed and lumpy. In France, for instance, U.S. investment flows were negative in Q1 (-$243 million), boomed in Q2 (+$5.2 billion) and then dropped again in Q3 (-$815 million). For all of 2015, we estimate U.S. FDI outflows totaled $4 billon, one of the strongest levels of the post-crisis era. However, U.S. investment flows to France remain well below pre-crisis levels. To this point, in the eight years stretching from 2000-07, cumulative U.S. FDI to France totaled $33 billion, with the nation accounting for 4.1% of aggregate U.S. investment in Europe. In contrast, in the subsequent eight years (2008-15 period), cumulative U.S. flows totaled just $23.9 billion, lowering France's share of U.S. investment to just 1.7% of the European total.

Germany tells a similar story. U.S. FDI flows to Germany totaled $2.7 billion in the first nine months of 2015, but like France, flows were very lumpy. In Q1, U.S. flows were just $293 million in Q1 and -$390 million in Q2, before surging $2.8 billion in Q3. For the year, we estimate U.S. FDI flows to Germany totaled $2.8 billion, up sharply from the past few years and the highest level since 2011. Yet, a pre- and post-crisis analysis reveals some distributing trends. While U.S. FDI to Germany totaled nearly $52 billion over 2000-07, with Germany accounting for 6.4% of total U.S. FDI flows to Europe, U.S. inflows totaled just $26 billion over 2008-15, dropping Germany's share of U.S. investment to 1.8%. Combined, U.S. FDI flows to Germany and France, two of Europe's largest economies, totaled $6.8 billion in 2015 by our estimates. That is well off the very depressed levels of the past few years, with combined U.S. investment in Germany and France totaling just $200 million in 2014 and $209 million in 2013. The weak numbers largely reflect negative flows to Germany in both years. In contrast, combined U.S. FDI flows to China (including Hong Kong) and India totaled roughly $12 billion in 2015, a clear signal that more and more U.S. firms are finding better and more favorable market conditions in Asia's largest economies than in Europe's largest economies. Per India, now growing at a faster pace than China, U.S. investment over the past few years has

been averaging roughly $2.5 billion per year, well ahead of the majority of nations in Europe.

Table 1 highlights the long view of U.S. foreign direct investment in Europe. A few items stand out. First, five countries (Finland, Greece, Hungary, Russia and Sweden) have all experienced net outflows of U.S. investment since the start of this decade. After sinking over $11 billion into Russia in the first decade of this century, U.S. investment in Russia has dried up since 2010. As mentioned earlier, the share of U.S. FDI in both Germany and France has declined sharply thus far in this decade, with France accounting for just 1.2% of U.S. FDI flows to Europe since 2010. Germany's share is slightly higher, 1.6%, but still off the levels of previous decades. That said, some of these figures need to be used carefully, since some U.S. investment in countries neighboring Germany, for instance the Netherlands, Luxembourg or Belgium, finds its way ultimately to Germany.

Just as U.S. firms leverage different states across America, with certain activities sprinkled around the Northeast, mid-west, the south and west, so U.S. firms deploy the same strategies across Europe, leveraging the specific attributes of each nation. Economic activity across the EU is just as distinct and differentiated by country. Different growth rates, differing levels of consumption, varying degrees of wealth, labor force participation rates, financial market development, innovation capabilities, corporate tax rates—all of these factors, and more determine where and when US firms invest in Europe.

Table 2 helps make this point. The figures show U.S. affiliate sales to other destinations or the exports of affiliates per nation. Strategically-located Singapore, at the center of Southeast Asia and ideally positioned between China and India, ranks as the number one export platform in the world for U.S. multinationals and their affiliates. But note that of the top ten export platforms in the world, seven are in Europe, led by Ireland, Switzerland, the UK, Germany, the Netherlands, Belgium and France. The attraction of many of these nations is due in part to each nation's role as a strategic beachhead for U.S. multinationals hoping to penetrate the European Union in a competitive and cost-effective manner. For decades, the UK was the traditional export platform for U.S. affiliates to the European mainland., but the introduction of the euro, the Single Market and EU enlargement have enticed more US firms to invest directly in the continent itself. The extension of EU production networks and commercial infrastructure throughout a larger pan-continental Single Market has shifted the center of gravity in Europe eastward within the EU, with Brussels playing an important role in economic policies and decision-making.

Switzerland, meanwhile, remains a key export platform and pan-regional distribution hub for U.S. firms, evident by the fact that in 2013, the last year of available data, Switzerland ranked as the third largest export platform in the world for U.S. affiliates; the UK ranked 4th, Germany 6th, the Netherlands 7th, Belgium 8th and France 10th.

That said, of all the nations on the table, Ireland stands out as Corporate America's strategic beachhead to the rest of the European Union. Ireland ranked well down the list as a corporate beachhead for U.S. firms in 1982, ranking 13th in the world in terms of U.S. foreign affiliate exports. Then, U.S. affiliates exports totaled just $2.8 billion. By 1990 that figure had grown to $9.5 billion and by 2000, was in excess of $50 billion. In the first decade of this century, as the industrial and technological capacities of U.S. affiliates in Ireland surged, so did U.S. affiliate exports, soaring nearly five times between 2000 and 2013. Affiliate exports totaled $244 billion in 2013, trailing only Singapore, but ahead of many others, including Switzerland and the United Kingdom. U.S. firms have leveraged Ireland as an export base to a far greater degree than low-cost locales like Mexico, Hong Kong and China. The latter ranked 12th in 2013. U.S. affiliates export four times more from Ireland than from China and about 3.5 times larger than comparable exports from Mexico, despite strong NAFTA linkages between the United States and Mexico. On a standalone basis, U.S. affiliates exports from Ireland are greater than most countries' exports. Such is the export-intensity of U.S. affiliates in Ireland and the strategic importance of Ireland to the corporate success of U.S. firms operating in Europe and around the world.

Of the top twenty global export platforms for U.S. multinationals in the world, half, or ten, are located in Europe, a trend that reflects the intense cross-border trade and investment linkages of the European Union and the strategic way US firms leverage their European supply chains.

Why Europe Still Matters

The secular and structural case for investing Europe remains relatively positive for a number of reasons. First, while both the United States and China loom large in the hierarchy of the global economy, so does the European Union, still one the largest economies in the world. This fact is often overlooked or ignored by the common consensus, which is more attuned with what's wrong with Europe, as opposed to what's right. In nominal U.S. dollar terms, the EU (plus Norway, Switzerland, Iceland)

U.S. FDI Outflows to Europe adjusted for flows of Holding Companies

In last year's report, we highlighted for the first time the role of U.S. holding companies in determining U.S. investment flows to Europe. The figures are sourced from the Bureau of Economic Analysis (BEA). We have updated the accompanying exhibit to include data for 2014.

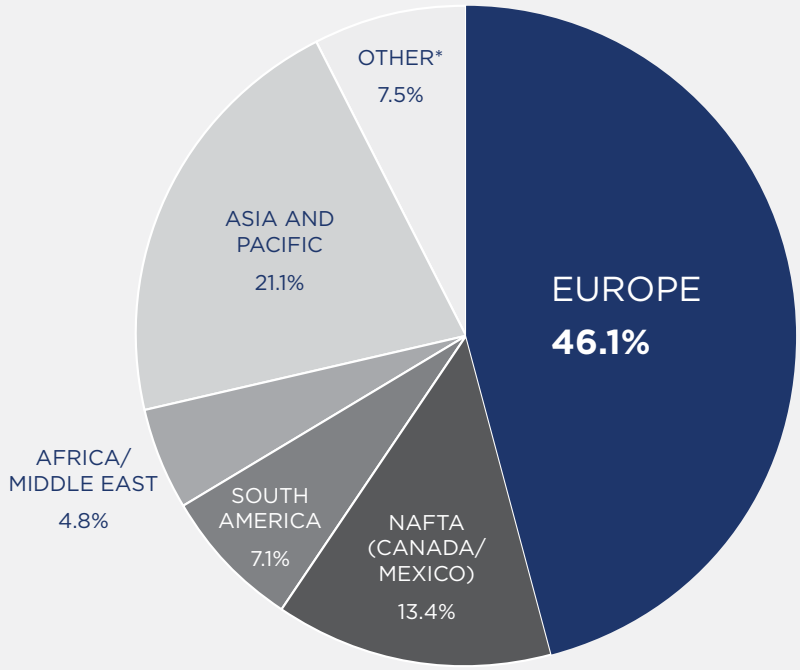
This additional lens is warranted since holding companies account for a growing share of total U.S. FDI outflows to Europe. In 2014, for instance, holding companies accounted for $151 billion, or nearly half, of global U.S. FDI of $317 billion, and 51% of total U.S. foreign direct investment to the European Union of $147.7 billion. As the BEA notes,

"The growth in holding-company affiliates reflects a variety of factors. Some holding-company affiliates are established primarily to coordinate management and administration activities—such as marketing, distribution, or financing—worldwide or in particular geographic region. In addition, the presence of holding-company affiliates in countries where the effective income tax rate faced by affiliates is relatively low suggests tax considerations may have also played a role in their growth. One consequence of the increasing use of holding companies has been a reduction in the degree to which the USDIA position (and related flow) estimates reflect the industries and countries in which the production of goods and services by foreign affiliates actually occurs."

Against this backdrop, total U.S. FDI flows to Europe over the past few years have been driven in part by holding companies. In 2009, for instance, holding companies accounted for 51% of total U.S. FDI flows to the Europe. In 2010 and 2011, the shares were 73% and 62%, respectively. Holding companies accounted for 59% of total U.S. outflows to Europe in 2012, 68% in 2013 and just over half in 2014, the last year of available data. The countries attracting the most investment of holding companies, not surprisingly, are those with some of the lowest corporate tax rates in Europe, Luxembourg, the Netherlands, the UK and Ireland.

The bottom line: when FDI related to holding companies is stripped from the numbers, U.S. FDI outflows are not as large as typically reported by the BEA. Nonetheless, Europe remains the top destination of choice among U.S. firms even after the figures are adjusted. As shown in Table 3, between 2009 and 9014, Europe still accounted for 46% of total U.S. FDI outflows when flows from holding companies are removed from the aggregate. Europe's share was more than double the share to Asia, underscoring the deep and integrated linkages between the U.S. and Europe.

TABLE 3: U.S. FDI OUTFLOWS EXCLUDING FLOWS TO NONBANK HOLDING COMPANIES 2009-2014 - (% OF TOTAL)



**Includes Central America (excluding Mexico) and Other Western Hemisphere*
Source: Bureau of Economic Analysis.
Data as of January 2015.

TABLE 4: CUMULATIVE U.S. FDI OUTFLOWS (MILLIONS OF $)

	All Countries	Europe	Europe as a % of World
1950-1959	20,363	3,997	19.6%
1960-1969	40,634	16,220	39.9%
1970-1979	122,721	57,937	47.2%
1980-1989	171,880	94,743	55.1%
1990-1999	869,489	465,336	53.5%
2000-2009	2,056,009	1,149,810	55.9%
2010Q1-2015Q3	1,850,513	1,042,439	56.3%

Source: Bureau of Economic Analysis

accounted for 25.6% of world output in 2014 according to estimates from the International Monetary Fund. That was greater than America's share (22.5%) and well in excess of China's—13.4%. Even based on purchasing power parity figures, the EU's share was slightly greater than both the United States and China in 2014.

What started out as a loosely configured market of six nations (Belgium, France, West Germany, Italy, Luxembourg and the Netherlands) in the late 1950s is now an economic behemoth of 28 member states. In other words, the sum of Europe's parts is greater than any other economic entity in the world; as such, Europe remains a key pillar of the global economy and critical component to the corporate success of U.S. firms.

As Table 4 highlights, Europe continues to attract more than half of U.S. aggregate foreign direct investment (FDI) outflows. The region's share of U.S. FDI has remained relatively constant at 56% of the total over this decade, basically unchanged from the first decade of this century but up slightly from the 1990s level. When U.S. FDI flows to Caribbean offshore financial centers are subtracted from the total, Europe's share of U.S. investment climbs to over 60% (see table 5).

Even after adjusting for FDI flows related to holding companies, Europe remains the favored destination of U.S. firms. This runs counter to the fashionable narrative that Corporate America prefers low-cost nations like Asia, Latin America and Africa to developed markets like Europe. Reality is different for a host of reasons.

First, investing in emerging markets such as China, India and Brazil remains very difficult, with indigenous barriers to growth (poor infrastructure, dearth of human capital, corruption, etc) as well as policy headwinds (foreign exchange controls, tax preferences favoring local firms,) reducing the overall attractiveness of these markets to multinationals.

Second, real growth in the emerging markets has downshifted, notably in Brazil, Russia and China. Both Russia and Brazil are in recession, and are expected to remain mired in recession over the balance of 2016. Growth prospects in China, meanwhile, have slowed considerably as the nation shifts towards more consumption and service-led growth and away from export- and investment-driven growth. India's economy is on the rebound but the nation is too poor and too closed to make much of difference to the bottom line of Corporate America. In the end, for both cyclical and structural factors, the BRICs and the emerging markets remain a tough sale, a difficult place to do business. Hence the wide divergence between U.S. FDI to the BRICs and the U.S. FDI to Europe (see tables 6 and 7).

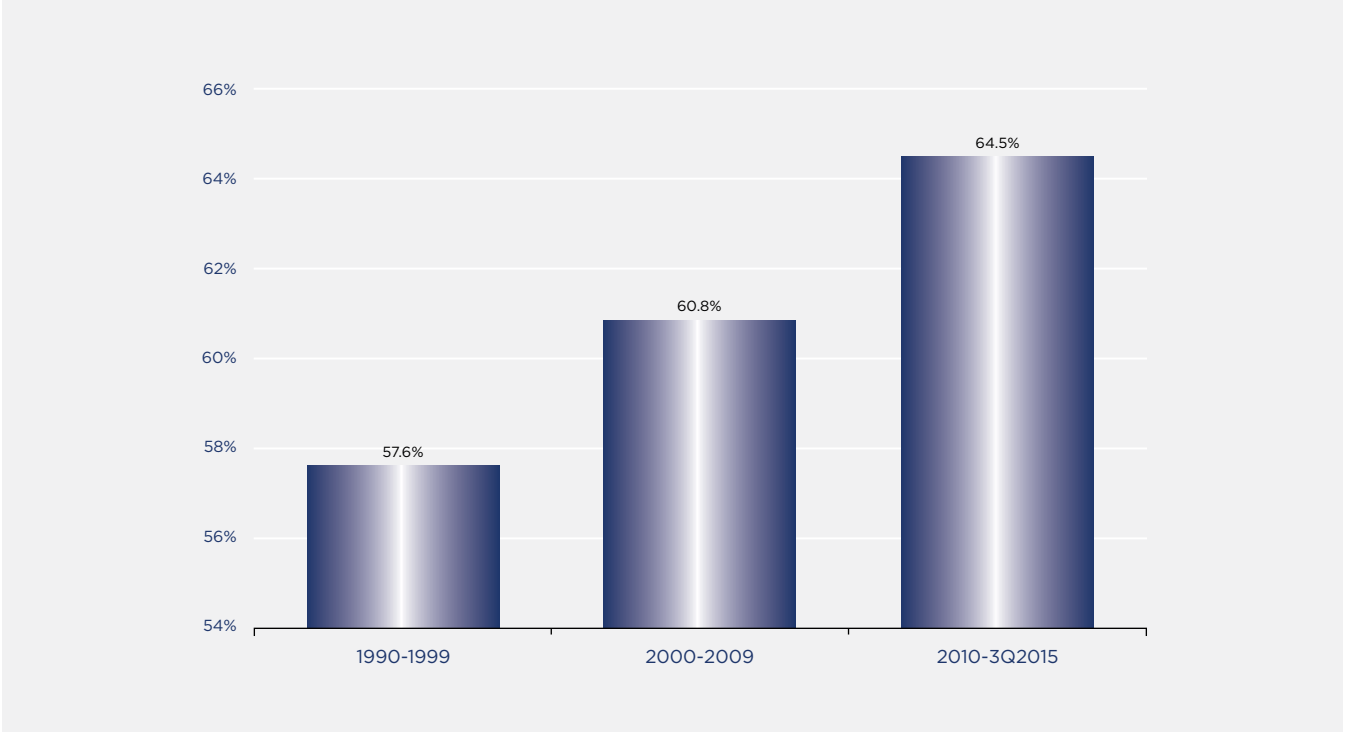
Third, economic growth in Europe is on the rebound. Real economic activity is accelerating thanks to the ECB's more accommodating monetary policies; lower oil prices; and the weaker Euro. All three variables should help produce growth of 1.5-2% in the European Union in 2016, one of the strongest levels in years. Unemployment in many nations has peaked and should trend lower over the near-term. Lower oil prices are akin to a tax cut and should help fuel personal consumption, while the weaker Euro has boosted export prospects across the region.

Fourth, in addition to being on the mend and one of the largest economic blocs in the world, Europe is also wealthy, and wealth matters. Wealth is correlated with highly skilled labor, rising per capita's, innovation, and a world class R&D infrastructure, among other things. In the aggregate, 15 of the 25 wealthiest nations in the world are European. Per capita levels in Europe are light years ahead of those in India and China, and all of Africa.

While much has been made of the rise of China, with the mainland's economy now the second largest in the world, the Middle Kingdom remains relatively poor, with China's per capita income totaling just $7,400 in 2014, according to figures from the World Bank. The Chinese figure ranks 100th in the world and is well below the per capita income levels of Sweden ($61,610), the Netherlands ($51,890), Finland ($48, 420), Germany ($47,640), and the European Union average of around $35,000. With a miserly per capita income of $1,500, India ranks 170th.

Wealth drives consumption, with the EU accounting for nearly 25% of global personal consumption expenditures in 2014, a slightly lower share than that of the United States but well above that of China (roughly 9%0 and India (less

TABLE 5: U.S. FDI FLOWS TO EUROPE - (% OF WORLD TOTAL*)



**Excluding Caribbean and Other Western Hemisphere*
Source: Bureau of Economic Analysis
Data at of December 17, 2015.

than 3%) and the BRICs combined (roughly 17%). Gaining access to wealthy consumers is among the primary reasons why US firms invest overseas, and hence the continued attractiveness of wealthy Europe to American companies.

Another attraction of Europe lies with the ease of doing business in the region. Just as the macroeconomic backdrop influences any business climate, so do micro factors. Country and industry regulations can help or hamper the foreign activities of U.S. multinationals, and greatly influence where U.S. companies invest overseas. Think property rights, the ability to obtain credit, regulations governing employment, the time it takes to start a business, contract enforcements, and rules and regulations concerning cross border trade. These and other metrics influence and dictate the ease of doing business, and on this basis many Europe countries rank as the most attractive in the world.

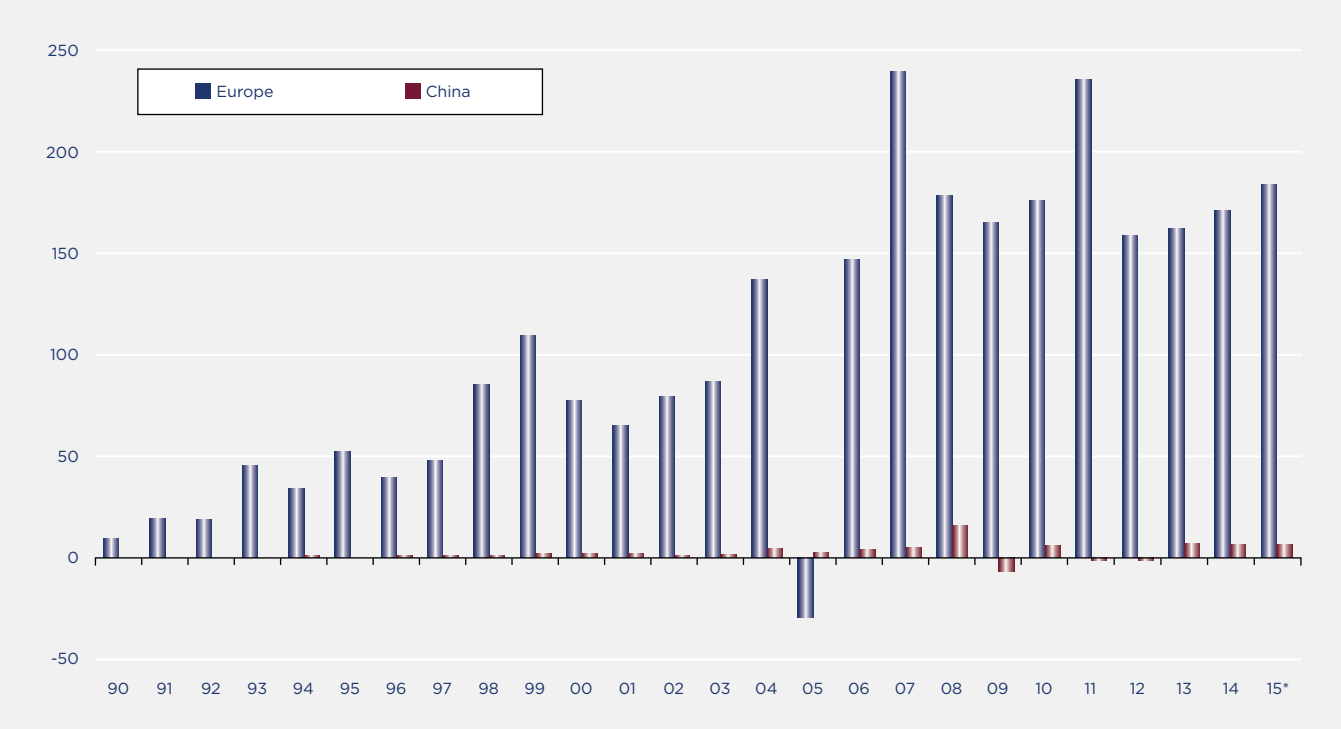
The World Bank annually ranks the regulatory environment for domestic firms in 185 nations, a ranking which serves as very good proxy for the ease of doing business for domestic and foreign companies alike. And in the 2016 Ease of Doing Business rankings, 13 European economies ranked among the top 25 most business-friendly countries. Denmark ranked 3rd overall, followed by the United Kingdom (6th), Sweden (8th), Norway (9th), Finland (10th), Germany (15th), Estonia (16th), Ireland (17th), Iceland (19th), Lithuania (20th), Austria (21st), Latvia (22nd), and Portugal (23rd). See Table 8.

Outliers include Croatia, ranked 40th, Italy, ranked 45th, Russia (51st), and Greece, ranked 60th. Reflecting the challenging business environment of many key emerging markets, China ranked 84th in terms of ease of doing business in the latest rankings, while Brazil ranked 116th India clocked in at 130th.

The nations just mentioned are regularly hyped as among the most dynamic in the world, yet strong real GDP growth does not necessarily equate to a favorable environment for business. Other factors need to be factored into the equation, like the rise of state capitalism in many developing nations, continued intellectual property right infringements, capital controls, and discriminating domestic policies against foreign firms. These factors have become favorite policy tools in many key emerging markets, further enhancing the attractiveness of Europe in the eyes of U.S. multinationals.

In the end the greater the ease of doing business in a country, the greater the attractiveness of that nation to U.S. firms. The micro climate matters just as much as the macro

TABLE 6: U.S. FOREIGN DIRECT INVESTMENT FLOWS TO CHINA VS. EUROPE - BILLIONS OF $



** Annualized based on 1-3Q 2015.*
Source: Bureau of Economic Analysis.
Data as of December 17, 2015.

performance; Europe trumps many developing nations by this standard.

In addition, despite Europe's sovereign debt crisis has obscured a critical fact about the region's global competitiveness: that notwithstanding current market problems, many European economies remain among the most competitive in the world. For instance, in the latest rankings of global competitiveness from the World Economic Forum, six European countries were ranked among the top 10, and seven more among the top twenty-five. Switzerland ranked first, Germany 4th, the Netherlands 5th, Finland 8th, Sweden 9th and the United Kingdom 10th. Meanwhile, Norway ranked 11th, Denmark ranked 12th, Belgium 19th, Luxembourg 20th, France 22rd , Austria 23rd,and Ireland 24th (See Table 8).

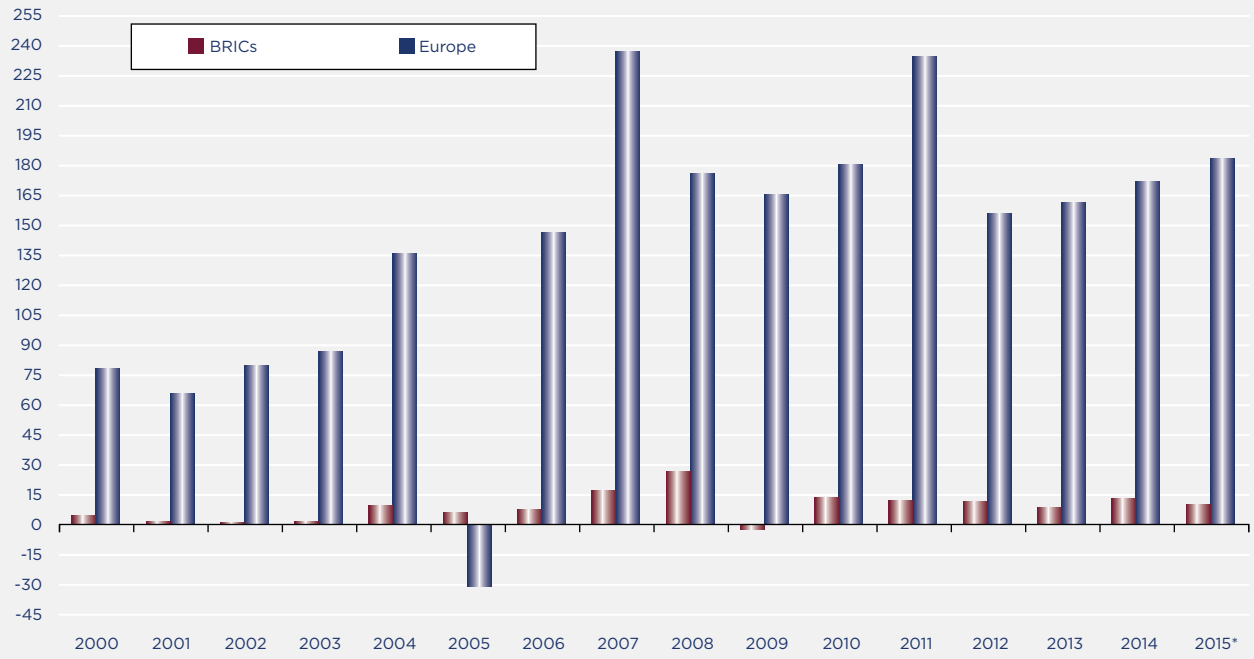
The United States, by way of comparison, ranked 3rd in the latest rankings.

At the other end of the spectrum, a handful of European nations scored poorly, underscoring the fact that Europe's competitiveness is hardly homogenous. A handful of nations did not even score in the top fifty—Romania ranked 53rd, Bulgaria 54th, Slovenia, 59th, Hungary 63th, Croatia 77th, while Greece ranked 81th in the latest survey, the worst performer among EU members.

The spread between Number One Switzerland and floundering Greece underscores the divergent competitiveness of the EU and highlights the fact that various nations exhibit various competitive strengths and weaknesses. For instance, Greece received low marks for its public institutions and inefficient labor markets, which stands in contrast to Ireland's well functioning labor force or Norway's highly ranked public institutions.

Belgium was cited for outstanding health indicators and primary education; France was highlighted for its transport links and energy infrastructure, as well as strengths in quality of education, sophistication of business culture, highly developed financial markets, and leadership in innovation. Estonia, Poland and the Czech Republic were cited for their top notched education system and flexible labor market; Spain's ranking was hurt by macroeconomic imbalances but scored relatively well in terms of ICT usage. Italy's labor force remains quite rigid but the nation scored well in terms of producing goods high up in the value chain. Finally, Germany ranked highly across many variables: quality of infrastructure, efficient goods market, R&D

TABLE 7: U.S. FOREIGN DIRECT INVESTMENT OUTFLOWS TO THE BRICs VS. EUROPE[1] - (BILLIONS OF $)



** Annualized based on 1-3Q 2015*
Source: Bureau of Economic Analysis
[1] Europe does not include flows to Russia
Data as of December 17, 2015.

spending, exports and largest domestic market, among other things.

All of the above is another way of saying that there is a great deal more to Europe than the daily diet of negative headlines. The various nations of Europe offer specific micro capabilities/competencies that are lacking on a relative basis in the U.S. and critical to the global success of U.S. firms.

Finally, Europe is no slouch when it comes to innovation and knowledge-based activities. Based on the Innovation Union Scoreboard for 2014, Denmark, Finland, Germany and Sweden rank as innovation leaders in Europe.

According to the 2014 data, the performance of Sweden ranked Number One in the survey, followed by Denmark, Germany, and Finland. These are the most innovative states in the EU, performing well above that of the EU 28 average. Hence this group was dubbed "innovation leaders".

So-called "Innovation Followers" include Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, Netherlands, Slovenia and the UK. The performance of Croatia, Czech Republic, Greece, Hungary, Italy, Lithuania, Malta, Poland, Portugal, Slovakia, and Spain was below that of the EU average; these nations are considered moderate innovators. The laggards, or modest innovators, include Bulgaria, Latvia, and Romania.

While significant discrepancies exist among nations in the EU as to knowledge-based capabilities, the innovation performance of the EU remains ahead of Australia, Canada and all BRIC nations. In addition, based on the latest figures, the EU is closing its performance gap with Japan and the United States.

In that R&D expenditures are a key driver of value-added growth, it is interesting to note that Europe-based companies accounted for roughly 22-23% of total global R&D in 2013 and 2014. That lagged the share of the United States (34% in 2013) but was well ahead of the global share of R&D spending in Japan (10.5%), China (16.5%), and India (2.87). In 2013, Sweden, Switzerland, Finland, and Denmark spent more on R&D as a percentage of GDP than the United States.

Led by European industry leaders like Roche, Novartis, Daimler, Sanofi, and GlaxoSmithKline, Europe remains a leader in a number of cutting edge industries including

TABLE 8: EASE OF DOING BUSINESS 2016

Rank	Country	Rank	Country
1	Singapore	**16**	**Estonia**
2	New Zealand	**17**	**Ireland**
3	**Denmark**	18	Malaysia
4	Korea	**19**	**Iceland**
5	Hong Kong	**20**	**Lithuania**
6	**United Kingdom**	**21**	**Austria**
7	**United States**	**22**	**Latvia**
8	**Sweden**	**23**	**Portugal**
9	**Norway**	24	Georgia
10	**Finland**	**25**	**Poland**
11	Taiwan	**26**	**Switzerland**
12	Macedonia	**27**	**France**
13	Australia	**28**	**Netherlands**
14	Canada	**29**	**Slovak Republic**
15	**Germany**	**30**	**Slovenia**

Source: World Bank, Ease of Doing Business Report 2016.

TABLE 9: TRANSATLANTIC ECONOMIES ARE THE MOST COMPETITIVE IN THE WORLD

Global Competitveness Index 2015-2016

Rank	Country	Rank	Country
1	**Switzerland**	16	New Zealand
2	Singapore	17	United Arab Emirates
3	**United States**	18	Malaysia
4	**Germany**	**19**	**Belgium**
5	**Nertherlands**	**20**	**Luxembourg**
6	Japan	21	Australia
7	Hong Kong	**22**	**France**
8	**Finland**	**23**	**Austria**
9	**Sweden**	**24**	**Ireland**
10	**United Kingdom**	25	Saudi Arabia
11	**Norway**	26	Korea
12	**Demark**	27	Israel
13	Canada	28	China
14	Qatar	**29**	**Iceland**
15	Taiwan	**30**	**Estonia**

Source: World Economic Forum,
Global Competitiveness Report 2015-2016

life sciences, agriculture and food production, automotives, aerospace, nanotechnology, energy, and information and communications. Innovation requires talent and on this basis, Europe is holding its own relative to other parts of the world. To this point, Europe leads the world in producing science and engineering graduates, with the EU, according to the latest data from the National Science Board, accounting for 15% of global engineering graduates in 2014, the latest available data. America's share was just 3.3% of the global total. According to National Science Board, of the world's global research pool, the EU housed 1.6 million researchers in 2013 versus 1.3 million in the United States. EU accounted for 26% of the global total.

In specific industries, the EU remains notably strong in such high-technology manufacturing industries as pharmaceuticals and scientific instruments and aerospace. Against this backdrop, the EU is the largest exporter of commercial knowledge-intensive services (excluding intra-EU exports). Supporting Europe's top position in Finally, in terms of future workers, the U.S. high school graduation rate lags behind most European nations, including states like Germany, Ireland, Finland, Greece, Norway, the UK, Switzerland, Iceland, Czech Republic, Italy, Denmark, Poland, Slovakia and Hungary. The U.S. graduate rate was 81% in 2012-13 versus an OECD average of 83%.

While U.S. universities remain a top destination for foreign students, the UK, Germany and France are also notable attractions. In the end, Europe remains among the most competitive regions in the world in terms of science and technology capabilities. According to the U.S. National Science Board, "EU research performance is strong and marked by pronounced EU-supported, intra-EU collaboration."[1]

Adding It All Up

Europe, long the weak link of the global economy, is in recovery mode and remains a formidable economic entity. While the global brand of Europe has been battered over the past few years, the region remains quite large, wealthy, richly endowed, open for business, and technologically out in front in many key global industries.

Due to all of the above, Europe will remain a critical and indispensible geographic node in the global operations of U.S. companies. U.S. multinationals increasingly view the world through a tri-polar lens—a world encompassing the Americas, Europe and Asia, along with attendant offshoots. In this tri-polar world, U.S. companies are not about to give up on or decamp from one of the largest segments of the global economy.

Endnotes

1. See the National Science Board's "Science and Engineering Indicators, 2012," page 0-3.