CHAPTER 3

THE 50 U.S. STATES: European-Related Jobs, Trade and Investment

When Barack Obama first assessed the state of the union as President on February 24, 2009, he captured the mood of the moment: "You don't need to hear another list of statistics to know that our economy is in crisis, because you live it every day. It's the worry you wake up with and the source of sleepless nights."

Six years later, in early 2015, the President struck a new chord: "We are fifteen years into this new century. Fifteen years that dawned with terror touching our shores; that unfolded with a new generation fighting two long and costly wars; that saw a vicious recession spread across our nation and the world. It has been, and still is, a hard time for many. But tonight, we turn the page. Tonight, after a breakthrough year for America, our economy is growing and creating jobs at the fastest pace since 1999."

2014 was indeed a "breakthrough year" for the United States, as the world's largest economy re-emerged as one of its most dynamic and fastest-growing—a pole position many thought the United States had abandoned to China. In the wake of the financial crisis, the common narrative was that over-indulgent America was in a secular decline, due to imperial overreach in the Middle East; the attendant costs of waging war in Iraq and Afghanistan; the rising costs of entitlements juxtaposed against rising federal budget deficits; and overleveraged households that had become quite comfortable living well beyond their means.

Even President Obama referred to America's "day of reckoning" in his first State of the Union address, reconfirming in the minds of many that the United States and its transatlantic partner, Europe, were spent global forces and that it was China's turn to rule the world. Reality turned out to be different.

As we highlighted in Chapter 1, today the U.S. economy has a spring in its step. In 2014 the United States expanded at a faster rate than Europe, Russia and other major economies, including rising markets like Brazil and South Korea. Against this backdrop, it is little wonder that the United States continues to attract more foreign direct investment (FDI) than any other nation in the world, including China.

In 2013, the last year of complete data, the United States accounted for around 13% of total global FDI inflows—$187 billion out of global sum of $1.5 trillion—according to figures from the United Nations. That was up from the prior year ($168 billion) and was more than FDI inflows to China ($124 billion) and India ($28 billion) combined. Since the beginning of this century, cumulative FDI inflows to the United States of over $2.5 trillion have been more than double those flowing to China; India has received a fraction of what the United States has attracted over the same period.

The United States remains the perennial favorite of global firms because of a number of factors:

- A large and wealthy market, home to nearly 325 million people with a per capita income in excess of $50,000. With less than 5% of the global population, the United States still accounts for a staggering 25-27% of total global personal consumption expenditures, testimony to the purchasing power of the American consumer. America's economic growth in the second half of 2014 was largely powered by U.S. consumers, who are feeling more secure about their jobs and enjoying a massive tax cut courtesy of the plunge in oil prices.
- An expanding economy fast approaching $18 trillion in size. In 2015 the U.S. economy is expected to expand by better than 3%, while the euro area is forecast to expand by around 1%. This growth differential makes the United States far more attractive to many European firms than Europe itself.
- A hyper-competitive economy. The United States ranked 3rd in the latest Global Competitiveness report, trailing only Singapore and Switzerland.
- A strong innovative, risk-taking corporate culture, underpinned by world-class universities, a strong

capacity and culture of entrepreneurship, and a dense web of university-industry R&D collaboration.

» A climate friendly to business, supported by a transparent rule of law, sophisticated accounting, auditing and reporting standards, and respect for intellectual property rights, among other things. The World Bank ranked the United States 7th in ease of doing business in 2015.

» A repository of skilled, flexible and productive labor and a magnet for foreign skilled labor. According to data from the World Intellectual Property Organization, presented in Table 2, over the 2006-2010 period the United States alone attracted over 57% of the world's immigrant inventors, as measured by patent applications. A handful of European nations like Germany, Switzerland, the UK and the Netherlands followed. Europe as a whole received over 31% of all immigrant inventors, but also accounted for over 41% of all emigrant inventors.

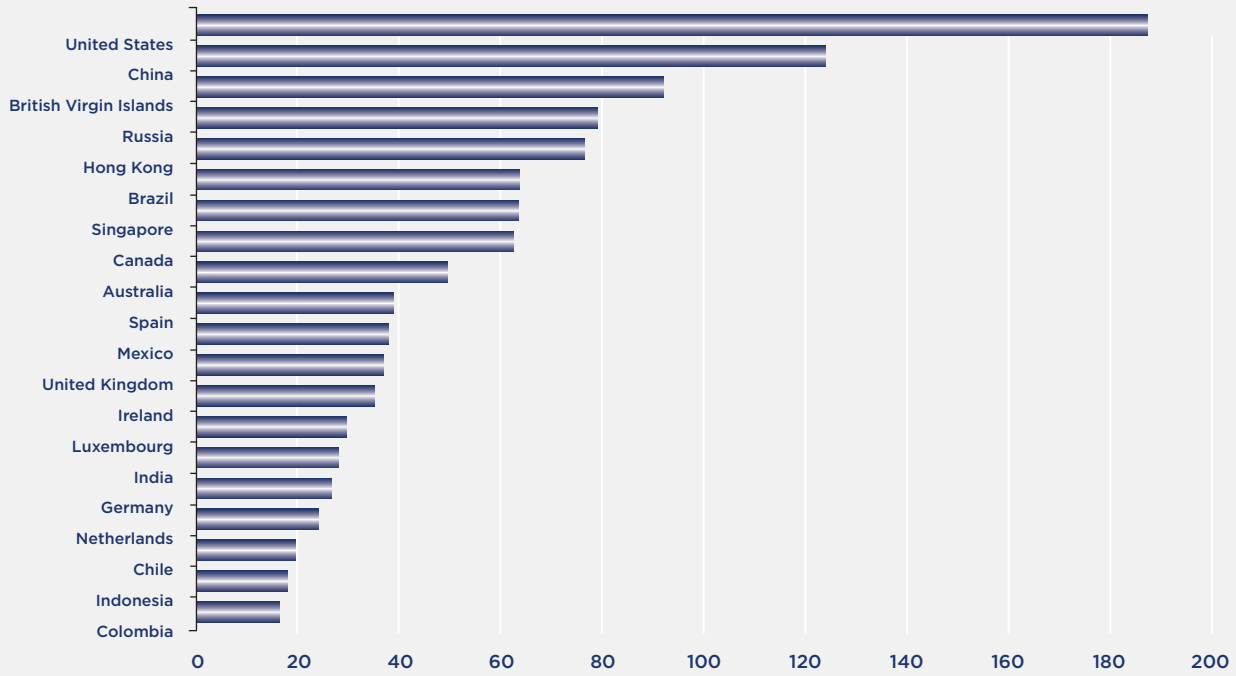
Taking the long view, Table 3 underscores that the bulk of global FDI flows is directed at mature, rich developed countries. Eight of the top ten recipients are developed nations, with China and Hong Kong notable exceptions. Six of the ten are European.

Europe Out Front

Europe continues to be the primary source of foreign direct investment into the American economy. As we explain in Chapter 2, U.S. FDI inflows from Europe in 2014 (estimated at $15 billion) were very modest, thanks to a one-off capital disinvestment in which Vodaphone (UK) sold its 45% share in Verizon Wireless to Verizon (U.S.) for $130 billion, leading to a massive -$122 million disinvestment in U.S. inflows in the first quarter of 2014. In the same quarter, Luxembourg also reported a large (-$20.6 billion) disinvestment from the United States that further depressed overall levels of inflows.

However, when the UK and Luxembourg are removed from the aggregate numbers, the adjusted figures show a 16% rise in European flows to the United States for the first nine months of the year from the same period a year earlier. Other high-profile deals included Bayer's $14.2 billion acquisition of Merck's consumer care business; ZF's $11.7 billion purchase of TRW; SAP's $8.3 billion purchase of U.S. tech company Concur; and Siemens' $7.6 billion acquisition of Dresser-Rand.

TABLE 1: FDI INFLOWS: TOP 20 HOST ECONOMIES, 2013 - (BILLIONS OF $)



Source: Bureau of Labor Statistics
Data for 2013

TABLE 2: TOP 20 COUNTRIES WITH THE LARGEST INVENTOR IMMIGRANT COMMUNITIES, 2006-2010

Country	Immigrants	Share of World Total (%)
United States of America	117,244	57.1
Germany	14,547	7.1
Switzerland	12,479	6.1
United Kingdom	9,113	4.4
Netherlands	5,565	2.7
France	5,369	2.6
Singapore	4,334	2.1
Canada	4,107	2.0
Japan	4,092	2.0
China	3,289	1.6
Sweden	3,204	1.6
Belgium	3,173	1.5
Australia	2,441	1.2
Finland	1,969	1.0
Austria	1,905	0.9
Spain	1,590	0.8
Denmark	1,520	0.7
Korea	1,188	0.6
Italy	1,108	0.5
Ireland	1,092	0.5
World	**205,446**	**100**

Source: WIPO Statistics Database, October 2013.

In terms of capital stock, Europe has again been leading the way. Europe accounted for roughly 70% of the $2.8 trillion of foreign capital stock sunk in the United States in 2013. Asia and Canada accounted for the rest, with Japan among the largest Asian investors in the United States.

The bulk of European capital came from British firms, with the UK's total FDI stock in the United States nearly $520 billion in 2013; the Netherlands was ranked second among European firms ($273 billion), followed by France ($226 billion), Switzerland ($209 billion), and Germany ($208 billon). Many firms from these countries are just as embedded in the United States as in their own home markets. And with the U.S. economy expanding faster than most of Europe, European firms that have invested in the United States have enjoyed somewhat of a buffer from slumping sales in the European Union. Whether Swiss drug firms, German automakers, British transportation firms—their corporate and commercial links to America have been hugely important and beneficial to their bottom line as Europe struggles to unshackle itself from the Great Recession of 2008.

TABLE 3: CUMULATIVE INVESTMENT INFLOWS 1980-2013 RANKINGS

Rank	Country	Cumulative Flows (Billions of U.S. $)	Percent of World Total
1	United States	3,742.1	16.5%
2	United Kingdom	1,597.1	7.1%
3	China	1,476.7	6.5%
4	Belgium	1,124.7	5.0%
5	France	932.1	4.1%
6	Hong Kong	860.6	3.8%
7	Germany	805.0	3.6%
8	Canada	728.0	3.2%
9	Spain	648.7	2.9%
10	Netherlands	630.3	2.8%

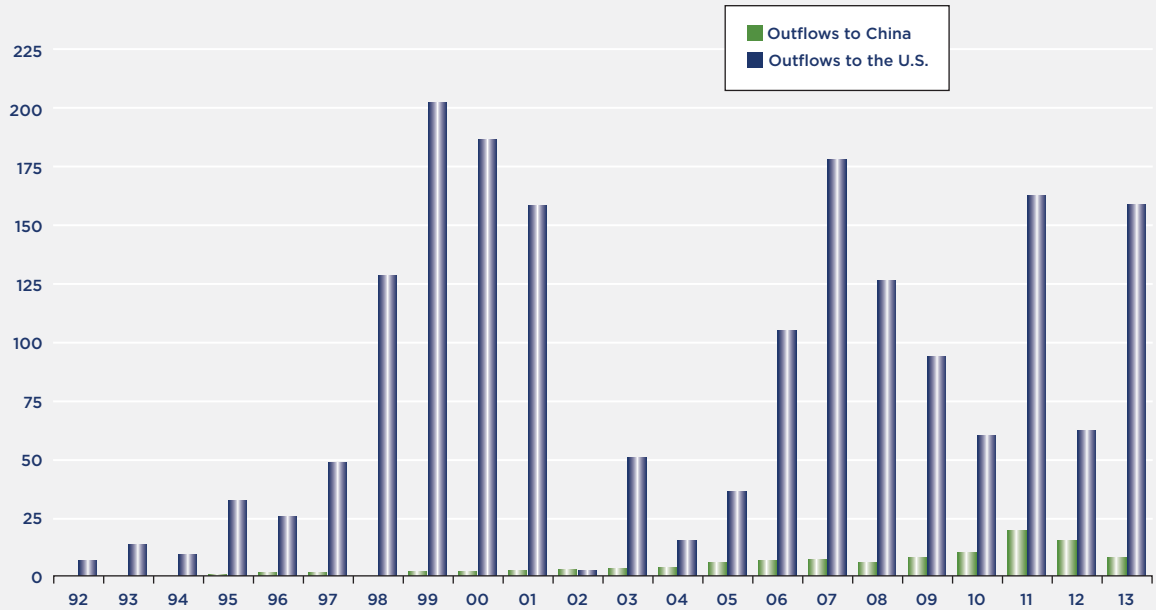
Source: United Nations Conference on Trade and Development (UNCTAD). Data as of January 2015.

What about Europe's growing presence in China relative to the United States? While Europe's stakes in China are on the rise, as are U.S. stakes in China, Europe's investment position in the United States is far deeper and thicker than similar ties with China. The United States represents a large, wealthy market, with respect for the rule of law and transparent rules and regulations. China, in contrast, remains relatively poor, with many barriers to investment and an opaque regulatory environment that is difficult to navigate. Hence, while both U.S. and European firms continue to build out their operations in China, and India for that matter, each party remains focused on the other. European FDI to China, after hitting a record €20.1 billion in 2011 and rising another €15.5 billion in 2012, plummeted to €8.6 billion in 2013, the last year of available data.

As discussed in Chapter 2, European firms earned an estimated $110 billion in the United States in 2014, down slightly from the levels of 2013 ($116 billion). Through the first nine months of 2014, affiliate income earned in the United States amounted to $83 billion, down 5.4% from the same period a year earlier. Germany, France, the Netherlands and the UK all posted year-over-year declines in the first nine months of 2014, although taking the long view, affiliate earning levels for most European firms are significantly higher than a decade ago. As European firms have built out their U.S. operations over the past few decades, they have also increased and enhanced their earnings potential in the largest economy in the world.

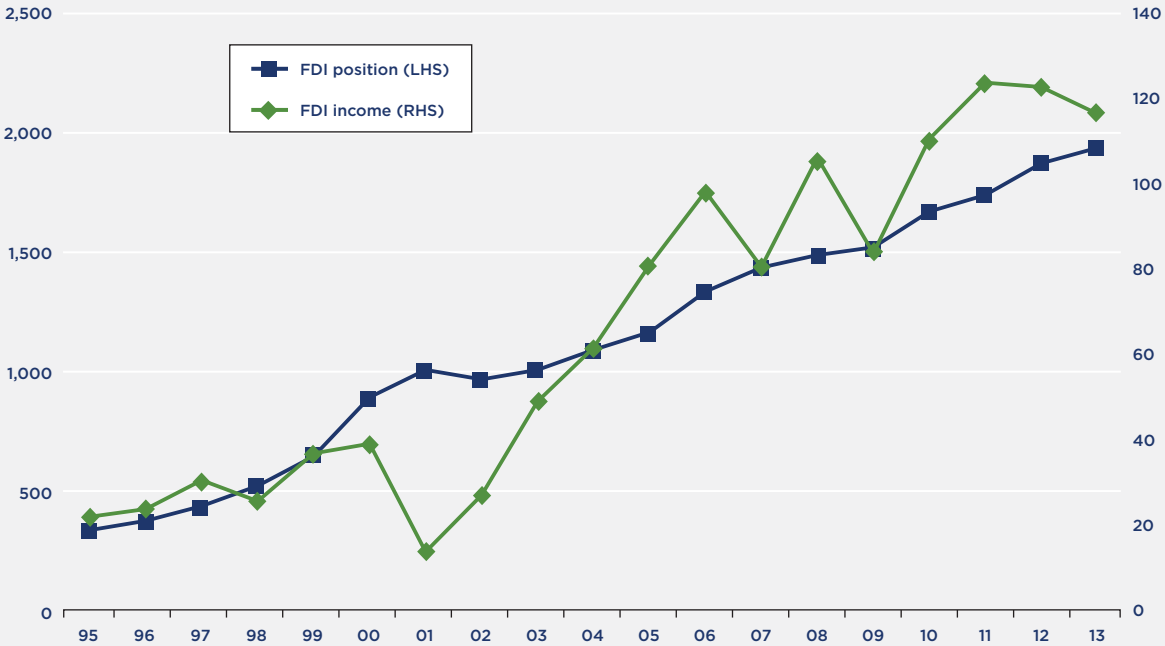
Table 5 highlights that more European investment in the United States corresponds to more affiliate earnings (and more activity in general). The two metrics, of course, are

TABLE 4: EUROPEAN UNION FOREIGN DIRECT INVESTMENT OUTFLOWS, U.S. VS. CHINA - (BILLIONS OF EUROS)



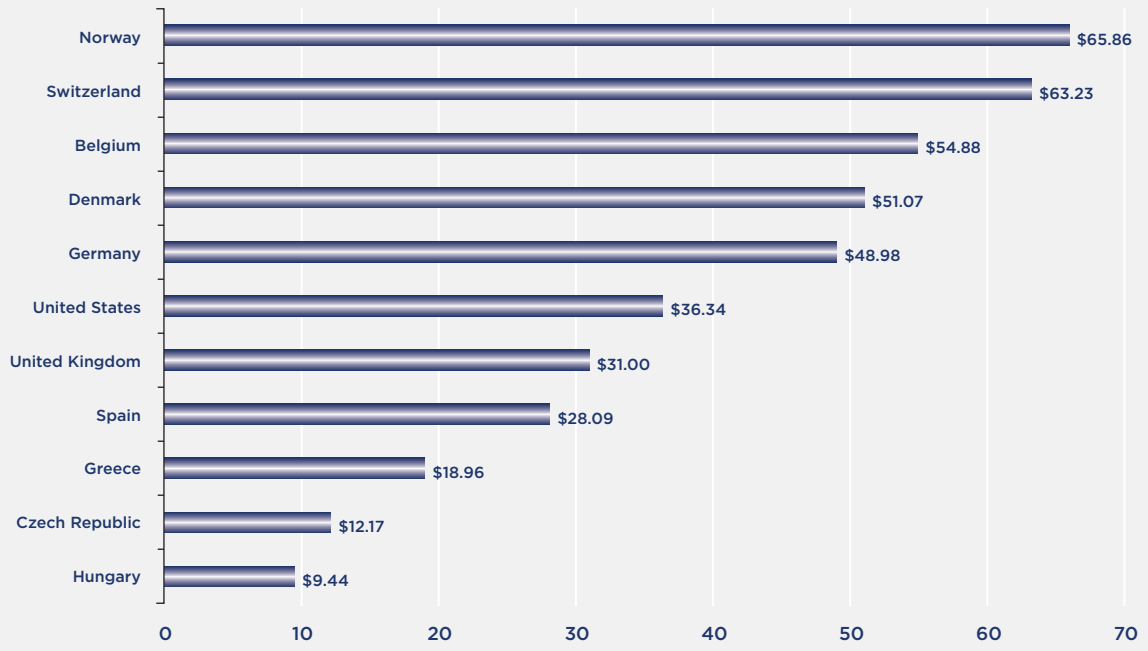
Source: Eurostat.
Data as of October 18, 2014.

TABLE 5: EUROPEAN FOREIGN DIRECT INVESTMENT AND INCOME EARNED IN THE UNITED STATES (BILLIONS OF $)



Sources: Bureau of Economic Analysis
Data through 2012

TABLE 6: HOURLY COMPENSATION COSTS IN MANUFACTURING - (U.S. $)



Source: Bureau of Labor Statistics
Data for 2013

highly correlated—the greater the earnings, the greater the likelihood of more capital investment, and the more investment, the greater upside for potential earnings and affiliate income. The bottom line: Europe's investment stakes in the United States have paid handsome dividends over the past decades, and notably over the past few years, as Europe struggled to rebound from the crisis of 2008 while the United States motored ahead. With large swaths of Europe at or near recession in 2014, the more vibrant and growing U.S. market was a critical source of earnings growth for European firms.

The Effects of Cheaper Energy and Skilled Labor

We discussed at length in last year's annual survey America's energy revolution and the competitive benefits it derives from cheaper energy. We also highlighted the fact U.S. manufacturing costs remain quite favorable relative to many European nations, a dynamic that has not changed from our previous assessment.

To summarize U.S. energy trends, domestic oil and gas production reached near record levels in 2014, with so much U.S.-drilled oil coming to the oil markets that the excess supply triggered a price war with OPEC in the late stages of 2014. Since mid-2014, world oil prices have declined by over 50%, providing an oil tax cut to the world's major oil-consuming nations. While energy costs in the United States remain well below levels in Europe, the global decline in oil prices will benefit both transatlantic partners in 2015. That said, the energy cost advantage still favors the United States.

A second cost advantage relates to U.S. wages. As Table 6 highlights, U.S. manufacturing costs in 2013 were lower than in many European nations. U.S. hourly compensation costs totaled $36.34 in 2013, well below similar rates in Norway, Belgium, Switzerland, Denmark and Germany. U.S. wage costs, according to data from the Bureau of Labor Statistics, were 74% those of Germany in 2013.

U.S. productivity levels also continue to outpace many in Europe, reflecting America's global leadership in innovation, R&D, social media, IT-driven production systems and world-class universities. In addition, U.S. firms were more aggressive in shedding labor and cutting costs in the aftermath of the financial crisis, helping to boost earnings and labor productivity over the past half decade. The United States ranked third in terms of productivity levels among OECD states in 2013, trailing only Luxembourg and Norway.

TABLE 7: RANKING OF TOP 20 STATES BY JOBS SUPPORTED DIRECTLY BY EUROPEAN* INVESTMENT (THOUSANDS OF EMPLOYEES)

U.S. State	2010*	2011*	2012*
California	295.0	306.1	368.8
New York	236.7	240.7	297.7
Texas	226.8	234.6	294.7
Pennsylvania	167.0	168.3	207
Illinois	138.9	147.5	183.5
Florida	117.3	122.4	165.8
New Jersey	136.9	143.0	165.6
North Carolina	91.8	94.3	153.2
Massachusetts	117.1	122.9	146.3
Ohio	104.9	107.7	134.1
Michigan	69.2	74.1	123.4
Georgia	88.1	91.5	123.2
Virginia	73.8	77.5	119.2
Indiana	68.3	69.8	87.9
Maryland	62.1	64.8	83.4
South Carolina	56.6	63.3	82.6
Connecticut	67.0	68.0	82.2
Tennessee	53.4	58.6	71.6
Missouri	44.6	47.4	64.9
Minnesota	41.0	42.4	59.2

Source: Bureau of Economic Analysis
**In 2010 and 2011, European investment includes only France, Germany, Netherlands, Switzerland, and the United Kingdom. In 2012, the new benchmark survey expanded coverage to include an "other Europe" category, thereby boosting the figures for 2012 relative to 2010 and 2011.*

All of the above highlights the fact that the United States ranks as among the most attractive places in the world to do business. That said, there are many different economies within the United States; each U.S. state has different economic attributes. For instance, California is among the largest and wealthiest states, while Mississippi among the poorest. Texas was among the fastest-growing states in the union in 2014, although prospects have been dampened by the bust in oil prices. As the economic fortunes of individual U.S. states shift, so too do Europe's investment stakes in various regions—they increase or decrease each year based on prevailing business conditions, shifting competitive dynamics, ever-changing tax incentives, fluctuating regulatory winds or changing long-term strategic goals.

On balance, European investment is widespread across the United States and by industry. European firms can be found in all 50 states, and in all sectors of the economy, in manufacturing and service activities alike.

Europe's Stakes in America's 50 States

Taken together, the employment impact of European firms in the United States is quite significant, particularly at a time when finding a job remains a premium on both sides to the ocean. Table 7 provides a snapshot of state employment provided directly by European affiliates on the ground in the United States. As a footnote, the figures 2010 and 2011 only include data for a handful of nations (France, Germany, Netherlands, Switzerland, and the UK); figures for 2012 include more countries following the BEA's benchmark adjustments to the figures.

It is also important to note these charts underestimate considerably the true impact on U.S. jobs of America's commercial ties to Europe in at least two ways. First, jobs tied to exports and imports of both goods and services are not included. Second, many other jobs are created indirectly through suppliers or distribution networks and related activities. PriceWaterhouseCoopers estimates that for every direct subsidiary job, an additional three jobs are supported in the U.S. economy.[1]

TABLE 8: TOP EUROPEAN REGIONS SUPPORTING AMERICAN JOBS VIA FDI

Eight of the top 10 and 16 of the top 20 city-regions supporting U.S. jobs via FDI are European — the other four are Tokyo and Nagoya, Japan and Toronto and Montreal, Canada. Here are the European regions most important to American jobs in terms of FDI.

Rank	City/Region	Number of U.S. Employees (2011)
1	London	460,700
2	Paris	429,500
3	Amsterdam	231,700
4	North-Rhine Westphalia, Germany	165,400
5	Brussels	154,800
6	Dublin	141,600
7	Baden-Württemberg, Germany	134,300
8	Southeast England	132,000
9	Stockholm, Sweden	123,951
10	Zürich, Switzerland	112,609
11	Piedmont, Italy	85,832
12	Eastern, Switzerland	77,262
13	Lombardy, Italy	76,697
14	Vaud Valais, Switzerland	75,498
15	Aberdeen, Scotland	74,769
16	Bavaria, Germany	73,288
17	Luxembourg	73,186
18	Channel Islands, England	66,703
19	Hesse, Germany	63,090
20	South Holland, Netherlands	61,943

Source: Brookings. These figures understate the full job impact, as they do not include jobs derived from trade in goods and services, or any indirect employment effects.

Since California, New York and Texas are among the largest state economies, it is little wonder that employment among European affiliates is the highest in these three states. Roughly one million U.S. workers were on the payrolls of European affiliates in the three states combined in 2012. Following the 2008/09 recession, European affiliates pared their U.S. labor force. As the U.S. economy has improved, many have again increased the number of workers on their payrolls. Yet hiring among foreign affiliates in the U.S. has been rather "lumpy," or reflective on the company- and industry-specifics mentioned before.

In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's jobs picture. The more Europeans firms embed in local communities around the country, the more they tend to generate jobs and incomes for U.S. workers, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States. European FDI directly supported more jobs in 2012 than in pre-recession year 2006 in 38 U.S. states. 12 U.S. states registered fewer jobs supported by European investment in 2012 than in 2006.

Over this period, the biggest winner by far was Texas, which gained more than 58,800 jobs (24.9% more) directly from European investment between 2006 and 2012, and 64,600 more jobs (29%) since 2002. Other states that have gained significantly include Massachusetts – 27,000 (22.6%); Pennsylvania – 24,500 (13.4%); California – 23,300 (6.7%); New York – 15,600 (5.5%); Illinois – 12,200 (7.1%); Rhode Island – 10,100 (70.1%); and Georgia – 10,000 (8.8%);

A number of states with relatively low absolute numbers of jobs directly supported by European FDI have

TABLE 9: RANKING OF TOP 20 U.S. STATES TOTAL GOODS EXPORTS TO EUROPE, BY VALUE (BILLIONS OF $)

U.S. State	2000	2013	% Change from 2012	% Change from 2000
Texas	12.3	37.6	4%	206%
California	27.9	32.7	9%	17%
New York	15.3	28.8	8%	87%
Louisiana	3.3	13.6	0%	313%
Washington	13.1	12.9	14%	-1%
New Jersey	6.4	12.0	-1%	88%
Illinois	7.3	11.7	-11%	60%
Pennsylvania	4.7	10.7	7%	128%
Florida	3.9	10.4	-32%	167%
Massachusetts	8.0	9.8	1%	22%
Ohio	5.0	9.7	-2%	92%
Indiana	3.1	8.8	-7%	180%
Georgia	4.0	8.7	11%	120%
South Carolina	2.8	7.4	-4%	166%
Connecticut	3.5	6.5	5%	86%
North Carolina	4.6	6.4	4%	40%
Kentucky	3.1	6.4	31%	109%
Michigan	5.0	6.3	-1%	26%
Tennessee	2.7	6.2	4%	128%
Virginia	3.8	4.9	-2%	28%
U.S. Total	**187.4**	**326.7**	**-1%**	**74%**

Source: Foreign Trade Division, U.S. Census Bureau

TABLE 10: U.S. STATE EXPORTS TO EUROPE AND CHINA, 2014* (MILLIONS OF $)

U.S. State	Europe	China	U.S. State	Europe	China
Alabama	3,542	2,208	Montana	188	80
Alaska	924	1,140	Nebraska	784	461
Arizona	2,694	758	Nevada	2,485	431
Arkansas	1,009	269	New Hampshire	1,059	230
California	25,756	12,139	New Jersey	8,553	1,061
Colorado	1,297	483	New Mexico	548	78
Connecticut	4,865	653	New York	21,586	3,168
Delaware	1,597	344	North Carolina	5,294	2,045
Florida	6,678	876	North Dakota	250	11
Georgia	6,954	2,352	Ohio	7,389	2,502
Hawaii	12	180	Oklahoma	749	206
Idaho	308	382	Oregon	1,655	2,988
Illinois	8,629	3,666	Pennsylvania	7,585	1,809
Indiana	6,812	1,078	Rhode Island	520	87
Iowa	1,946	533	South Carolina	6,847	3,291
Kansas	1,603	952	South Dakota	101	32
Kentucky	5,573	1,162	Tennessee	4,694	1,779
Louisiana	10,265	3,917	Texas	28,929	8,148
Maine	290	147	Utah	2,325	682
Maryland	2,420	555	Vermont	282	203
Massachusetts	8,221	1,589	Virginia	3,942	1,307
Michigan	4,830	2,592	Washington	12,061	13,070
Minnesota	3,454	1,345	West Virginia	2,302	433
Mississippi	1,512	425	Wisconsin	3,223	1,165
Missouri	1,886	651	Wyoming	79	16

**Data through September 2014*
Source: U.S. Census Bureau, Foreign Trade Division

experienced significant relative gains since 2006. They include South Dakota (84.4% jump); Hawaii (68.2%); North Dakota (65%); Mississippi (61%); New Mexico (57.7%).

Other states have lost jobs from European investments since 2006, including Michigan – 17,500 (12.4%) less; Wisconsin – 11,500 (17%) less; New Jersey – 5,200 (3%) less; Tennessee – 3,100 (4.1%) less; Maryland and North Carolina, each with 3,200 (7%) less; and South Carolina – 1,600 (1.9%) less.

A number of states have either maintained the number of jobs supported by European investment from 2002 levels or went through the trough of the recession and by 2012 had restored such jobs roughly back to 2002 levels—Florida, Kentucky, Maryland, New Jersey, Ohio, Connecticut, Illinois, California, Georgia, Massachusetts, Alabama, Wyoming, and West Virginia.

The downtick in jobs from European investment since 2002 has been particularly noticeable in Wisconsin (34%), South Carolina (21%), Michigan (15%) and North Carolina (12%).

Deep investment ties with Europe also generate U.S. trade, notably exports. U.S. affiliates of foreign firms, particularly those from Europe, generated an estimated one-fifth of America's exports in 2013. Indeed, more than half of these exports were generated by European companies based in the United States. For instance, America's largest exporter of cars to the rest of the world in terms of value is German automaker BMW. From its production facility in Spartanburg, South Carolina, BMW exports 70% of its vehicles to 140 other countries, and from the Inland Port of Charleston, South Carolina BMW exports auto components to six emerging markets.

Every U.S. state maintains cross-border ties with Europe. Indeed, Europe is a key export market for many U.S. states, a role that helps to create and generate economic growth at home. Nonetheless, the growth differential between the United States and Europe over the past few years has meant a widening U.S. trade deficit with Europe. In the first eleven months of 2014 U.S. merchandise imports from Europe rose 6.1%, to $449 billion, versus U.S. exports to Europe of $308 billion, a rise of 2.3%. The upshot: a 15.4% widening of the U.S. merchandise trade deficit with Europe in the first eleven months of 2014.

U.S. merchandise exports to Europe by state varied in 2013—exports from energy-led states like Texas and Pennsylvania rose during the year, as did merchandise exports from California, New York, Washington and Georgia. Table 9 ranks the top 20 state goods exporters to Europe in 2013, with Texas ranked number one, followed by California and New York. The Big Three accounted for roughly 30% of total U.S. merchandise exports to Europe.

Table 10 shows that even in the face of weak European demand 45 of the 50 U.S. states exported more to Europe than to China for the first nine months of 2014. Goods exports from Florida and New Jersey were roughly 8 times larger than exports to China. New York's goods exports to Europe were nearly 7 times larger and Indiana's 6 times larger than to China. Texas, the leading U.S. state exporter to Europe, sent 3 times as many goods to Europe as to China. So did Ohio. California exported twice as many goods to Europe as to China. And on it goes. Only the Pacific-oriented states of Washington, Hawaii, Oregon, Idaho and Alaska send—marginally—more goods to China than to Europe.

Moreover, while these figures are significant, they actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. state exports of services. This is an additional source of income and jobs—most American jobs are tied to success in services. It is also traditionally a strength of the U.S. economy. Europe is by far the most important market in the world for U.S. services exports, and the United States consistently records services trade surpluses with Europe. Data on services exports is less complete than that for goods exports, and so we do not include them here. Suffice it to say that if services exports were added to goods exports, the European market becomes even more important for individual U.S. states.

By destination, key markets in Europe for U.S. states include Germany, the United Kingdom, and the Netherlands. Appendix A tracks European-related jobs, trade and investment for each of the 50 U.S. states.

Endnotes

1. PriceWaterhouseCoopers, "Economic Impact of U.S. Subsidiaries," March 2, 2012.