

THE 50 U.S. STATES:

European-Related Jobs, Trade and Investment

The U.S. economy is in the midst of one of the longest expansions in postwar history, with the economy expanding by roughly 2% in 2016. Since plunging in early 2009, economic output has steadily climbed each year thereafter, with the U.S. economy some 11.5% larger in the third quarter of 2016 than its peak before the crisis. The U.S. unemployment rate has been cut by more than half since topping 10% in October 2009; in January 2017, the unemployment rate stood at 4.8%. As of January 2017, the economy had added roughly 15 million jobs over the past 76 months, the longest streak of total job growth on record. Thanks to the pickup in employment, real gross domestic product per capita fully recovered to its pre-crisis peak in late 2013; meanwhile, real wage growth has been faster in the current cycle than in any since the early 1970s. All in, annualized U.S. growth has hovered around 2% since the recovery commenced in June 2009—an underwhelming rate of growth, for sure, but one that comfortably exceeds the European Union.

This year will be no different. Although the U.S. economic expansion is long in the tooth, the pace of U.S. growth is expected to accelerate in 2017 for a number of reasons, including rising consumer confidence, the reawakening of “animal spirits” among U.S. companies following the presidential election, and increased fiscal spending under the new administration. Both consumer and business confidence have soared since the U.S. election, a dynamic that portends more consumer spending and private capital investment in the year ahead; this, along with U.S. corporate tax reform and a boost in U.S. infrastructure spending, could push U.S. economic growth above 3% for calendar year 2017 — a growth rate the United States hasn’t seen since 2005.

Even if the 3% growth comes up short this year, the U.S. economy, as in years past, is still expected to expand at a faster pace than most of Europe and many key emerging markets. According to the latest IMF projections, U.S.

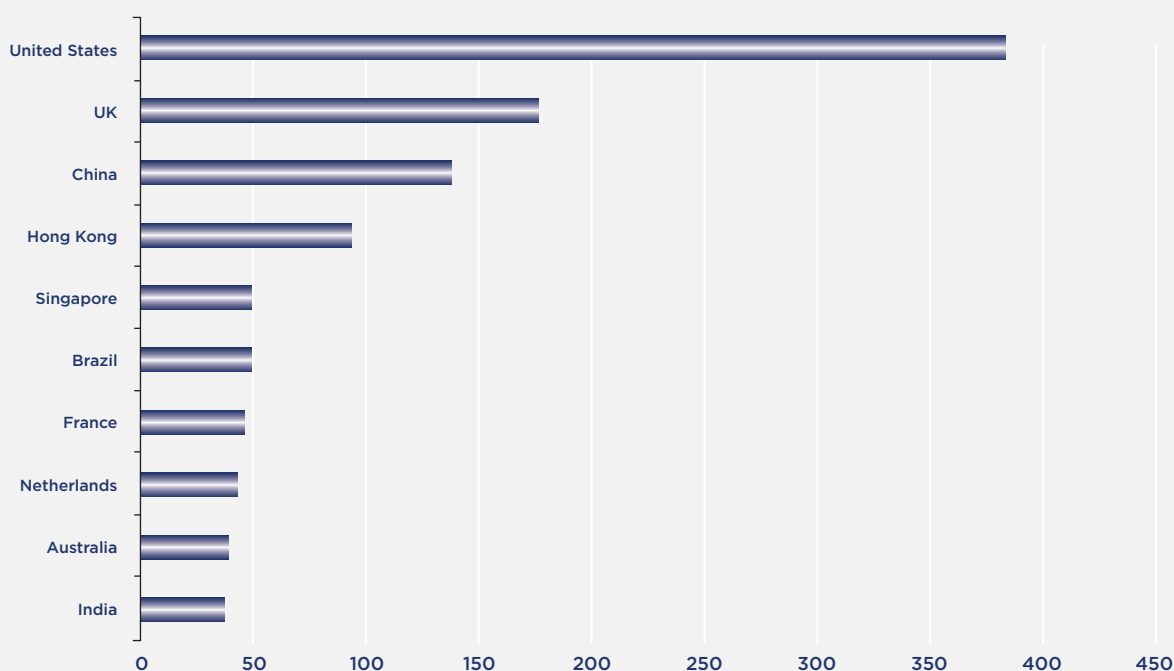
economic growth of 2.3% (a conservative estimate) in 2017 is still expected to outpace that of Germany (1.5%), France (1.3%), Italy (0.7%), and the euro area in general (1.6%). The United Kingdom is projected to expand by 1.5%. Meanwhile, the United States will even outperform many emerging markets, including Mexico (1.7%), Nigeria (0.8%), and Brazil, which is expected to expand by just 0.2% this year according to the IMF.

In other words, America’s economy is presently one of the strongest in the world, as well as the most competitive and resilient.

Against this backdrop, it is little wonder that the United States remains one of the most attractive countries in the world for foreign direct investment (FDI). The United States, according to the latest figures from the United Nations, ranked Number One in the world in FDI inflows in 2016, attracting over \$380 billion. Since the start of the century, more than 16% of total global foreign investment has flowed to the United States, with China ranked a distant second, capturing just over 7% of the total.

That the United States remains the top destination of choice among global firms is hardly surprisingly. Key attractions include a large and wealthy market that is 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 roughly one-quarter of global personal consumption expenditures, which is testimony to the purchasing power of American consumers, who are feeling more secure about their jobs and income.

In addition, it is the growth differential between the United States and the rest of the world that makes the United States far more attractive to firms not just from Europe, but from all over the world. Growth matters, and with the U.S. economy in excess of \$18 trillion, no other country comes remotely close in terms of size.

TABLE 1: FDI INFLOWS: TOP 10 HOST ECONOMIES, 2016 (BILLIONS OF \$)

Source: United Nations Conference on Trade and Development (UNCTAD), *Global Investment Trends Monitor No. 22*. Data as January 2016.

The United States also boasts of having a hyper-competitive economy, ranked third in the World Economic Forum's latest Global Competitiveness Report, trailing only Singapore and Switzerland. This competitiveness is driven by a strong innovative, risk-taking corporate culture and is underpinned by world-class universities, a strong capacity and culture of

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

Helping matters, the United States is home to one of the most skilled, flexible and productive labor forces in the world and magnet for foreign skilled labor. In 2015, the last year of available data, U.S. hourly manufacturing costs in the automotive industry were roughly 40% less than those of Germany, 19% lower than those in France, and 8.5% below those in Italy. Meanwhile, the United States is a friendly locale to do business, supported by a transparent rule of law, sophisticated accounting, auditing and reporting standards, and respect for intellectual property rights, among other things. The United States ranked eighth in terms of ease of doing business by the World Bank in 2017.

Taking the long view, Table 2 underscores that, in general, the bulk of global FDI flows are directed at mature, rich developed nations rather than poorer, underdeveloped nations. Of the top ten countries listed on the table, seven are developed nations.

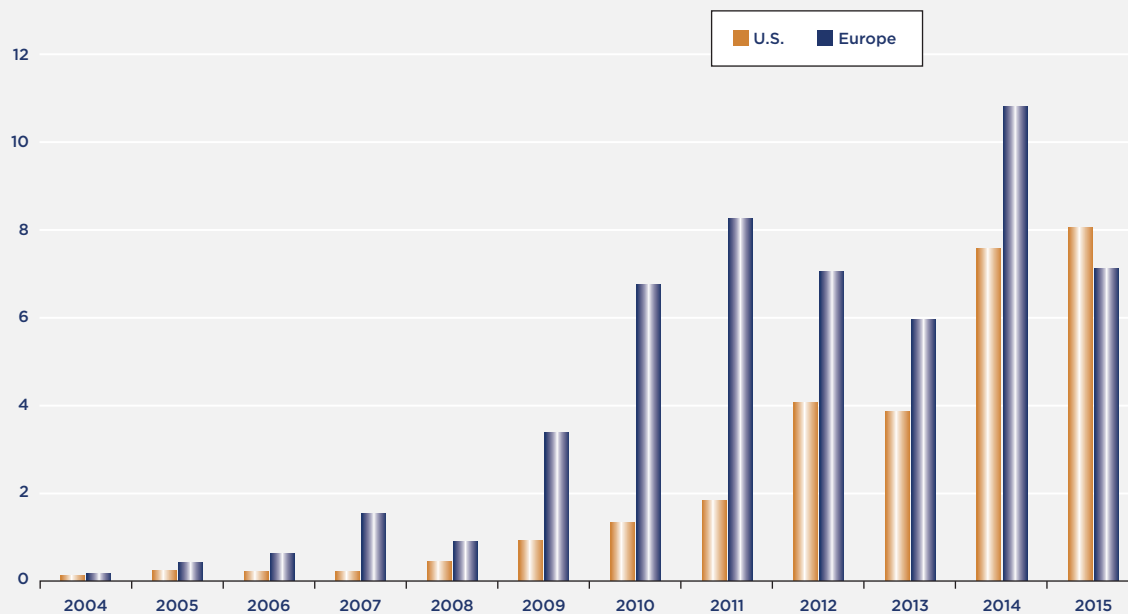
Europe's Stakes in America

European firms maintained their dominant foreign investment position in the United States again last year. Of

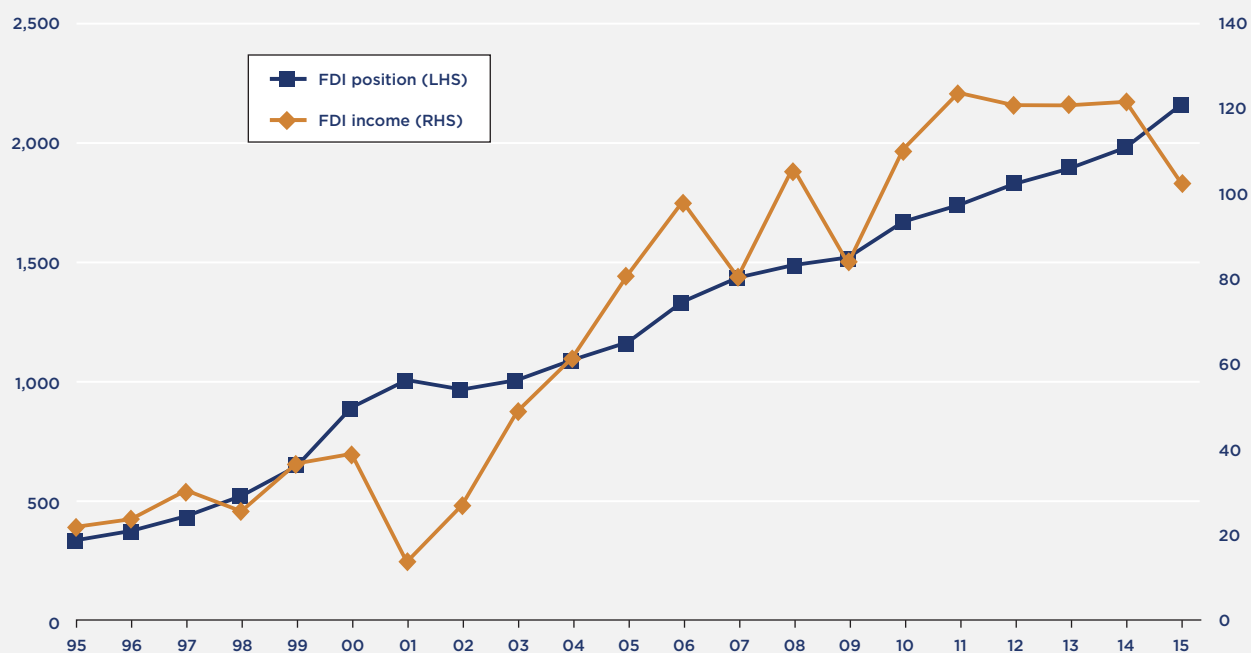
TABLE 2: CUMULATIVE INVESTMENT INFLOWS 1980-2016 RANKINGS

Rank	Country	Cumulative Flows (Billions of U.S. \$)	Percent of World Total
1	United States	4,671.5	17.9%
2	China	1,879.9	7.2%
3	United Kingdom	1,840.9	7.0%
4	Hong Kong	1,189.4	4.5%
5	Canada	873.7	3.3%
6	Germany	868.9	3.3%
7	Brazil	852.8	3.3%
8	Netherlands	844.5	3.2%
9	Belgium	816.4	3.1%
10	France	741.7	2.8%

Source: United Nations Conference on Trade and Development (UNCTAD). Data as of 2017.

TABLE 3: CHINESE FOREIGN DIRECT INVESTMENT OUTFLOWS - U.S. AND EUROPE (BILLIONS OF U.S. \$)

Source: China National Bureau of Statistics/Haver Analytics.
Data as of January 2017.

TABLE 4: EUROPEAN FOREIGN DIRECT INVESTMENT AND INCOME IN THE UNITED STATES (BILLIONS OF \$)

Sources: Bureau of Economic Analysis.
Data as of 2016.

TABLE 5: RANKING OF TOP 20 STATES BY JOBS SUPPORTED DIRECTLY BY EUROPEAN INVESTMENT (THOUSANDS OF EMPLOYEES)

U.S. State	2012	2013	2014
California	375.0	383.8	393.8
Texas	304.1	319.9	331.2
New York	300.4	302.1	310.5
Pennsylvania	210.9	216	222.9
Illinois	189.8	194.7	195.1
New Jersey	166.2	169.3	174.5
Florida	166.9	173.5	174.3
North Carolina	157.5	166.3	174.1
Massachusetts	144.5	154.1	163.8
Ohio	135.7	144.8	147.6
Michigan	125.5	138.7	141.9
Virginia	119.4	127.7	131.7
Georgia	123.7	131	129.9
Indiana	91.0	93.6	96.1
South Carolina	84.8	92.2	94.8
Maryland	84.6	81.5	83.7
Tennessee	72.3	78.6	81.1
Connecticut	84.1	82.2	80.9
Missouri	64.5	70.5	72.7
Minnesota	61.8	64.3	65.2

Source: Bureau of Economic Analysis

total U.S. inflows of \$385 billion in 2016, 72% were from Europe, with inflows from Europe totaling an estimated \$277 billion for the year. That represents a 4% rise from the prior year, and reflects the strategy of European firms to be “inside” the world’s largest and most dynamic market. In the first nine months of the year, inflows to the U.S. from Europe totaled \$231 billion, with large gains from the United Kingdom (\$34.2 billion), Switzerland (\$37.4 billion) and the Netherlands (\$37.4 billion). Outside of Europe, Japan and Canada emerged as significant foreign investors in the U.S. last year.

In terms of foreign capital stock in the United States, Europe, again, leads the way. The region accounted for roughly 70% of the total \$3.1 trillion of foreign capital sunk in the United States in 2015. Total European stock in the United States of \$2.2 trillion was almost four times the level of comparable investment from Asia.

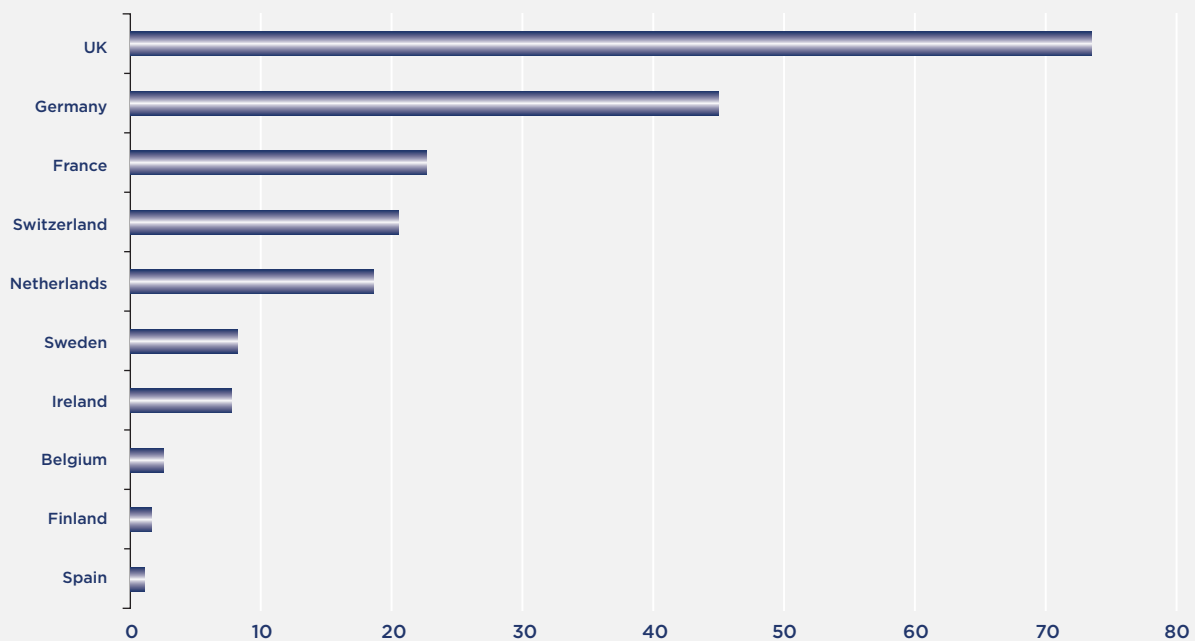
There was no change in terms of leading investors in the United States. The United Kingdom remains by far the largest foreign investor, based on FDI on a historic cost basis, with total FDI stock in the United States totaling \$484 billion in 2015. Luxembourg ranked second (\$328 billion), followed by the Netherlands (\$283 billion),

Switzerland (\$258 billion), Germany (\$255 billion), and France (\$234 billion). Many firms from these countries are just as embedded in the U.S. economy as in their own home markets. And with the U.S. economy expanding at a faster clip than Europe, and with the rising risks of U.S. protectionism under the new U.S. administration, which will spur more foreign firms to be inside the U.S. economy, European firms will continue to deepen and spread their footprint in the United States in the years ahead. Whether Swiss drug firms, German capital goods manufacturers or British transportation firms, their corporate and commercial links to America have been hugely important and beneficial to their bottom line.

Relative to China, while both U.S. and European stakes in China are on the rise, and vice versa, the transatlantic ties that bind the United States and Europe together are much thicker and far deeper than comparable ties with the mainland. The United States represents a large, wealthy market, with a respect for the rule of law and transparent rules and regulations. Ditto for Europe. China, on the other hand, remains relatively poor, with many barriers to entry in various sectors, all wrapped in an opaque regulatory environment that favors local firms or large state-owned enterprises. While Chinese investment in both the United States and Europe has grown sharply over the past few years, it still remains relatively shallow. In addition, there is a growing concern in both the United States and the EU over the lack of reciprocity with China. Chinese investors, for instance, spent four times as much on acquisitions in the EU as European companies in China in 2016. There was also an investment gap in the United States. The result has been a growing backlash against Chinese investment in both the United States and Europe.

European firms earned an estimated \$112 billion in the United States in 2016, up 9% from the prior year. Through the first nine months of last year, European affiliate income earned in the U.S. totaled \$84 billion; German affiliates saw a large increase in U.S. income of over 36% in the first nine months of the year, compared to the same period in 2015. Strong auto sales in the United States among German auto manufacturers helped boost affiliate earnings. Taking the long view, affiliate earning levels for most European firms are significantly higher today than a decade ago. As European firms have built out their U.S. operations, the payoff has been rising affiliate earnings in one of the largest markets in the world.

Table 4 highlights the connection between European investment in the United States and European affiliate earnings. The two metrics are highly correlated—the

TABLE 6: U.S. EXPORTS OF GOODS SHIPPED BY AFFILIATES OF EUROPEAN MULTINATIONAL CORPORATIONS
(BILLIONS OF \$)

Source: Bureau of Economic Analysis.
Data for 2014.

greater the earnings, the greater the likelihood of more capital investment, and the more investment, the greater the upside for potential earnings and affiliate income. The bottom line is that Europe's investment stakes in the United States have paid handsome dividends over the past decades, notably since the Great Recession, given the growth differential between the United States and Europe. That said, while European investment in the United States has paid off rather well, the benefits have not been one way. The United States has benefitted as well in terms of increased jobs and wages for U.S. workers, and rising exports via European affiliates operating in the United States.

Europe's Stakes in America's 50 States

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

One of the greatest benefits of this presence is the creation of U.S. jobs. The employment impact of European firms in the United States is quite significant. Table 5 provides a snapshot of state employment provided directly by European affiliates on the ground across the United States. Before getting into the specifics, it is important

to note that the chart underestimates 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 goods and services are not included. Second, many other jobs are created indirectly through suppliers or distribution networks and related activities.

California, New York and Texas—among the largest states in the union—is where employment by European affiliates is highest. Over 1 million U.S. workers were on the payrolls of European affiliates in the three states combined in 2014. Following the 2008/09 recession, European affiliates pared their U.S. labor force, as did many U.S. firms. However, as the economy has recovered over the past few years, so have the payrolls of affiliates, with increased hiring in many states and industries. In 2014, for instance, Pennsylvania, New Jersey, Illinois, and Ohio all experienced increases in employment in 2014 versus 2013, to name just a few states.

In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's job picture. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, greater sales for local suppliers and

TABLE 7: RANKING OF TOP 20 U.S. STATES TOTAL GOODS EXPORTS TO EUROPE, BY VALUE (BILLIONS OF \$)

U.S. State	2000	2015	% Change from 2014	% Change from 2000
California	27.9	33.1	-4%	19%
Texas	12.3	31.9	-14%	159%
New York	15.3	28.2	-4%	84%
Washington	13.1	14.2	-3%	9%
Illinois	3.3	12.3	4%	69%
Louisiana	7.3	10.7	-21%	225%
Pennsylvania	6.4	10.5	6%	124%
South Carolina	8.0	9.8	4%	249%
Massachusetts	5.0	9.5	-9%	19%
Indiana	4.7	9.5	5%	202%
Ohio	2.8	9.5	-6%	89%
Florida	4.0	9.0	2%	132%
Georgia	3.1	9.0	-3%	127%
New Jersey	3.9	9.0	-17%	40%
Kentucky	3.1	8.3	6%	170%
North Carolina	4.6	7.0	-2%	51%
Michigan	5.0	6.9	6%	36%
Connecticut	3.5	6.3	-2%	80%
Tennessee	2.7	6.2	0%	130%
Virginia	3.8	5.0	-3%	32%
U.S. Total	187.4	319.7	-4%	71%

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

businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

Deep investment ties with Europe have also generated U.S. trade, notably exports. Table 6 illustrates the export potential of European affiliates operating in the United States. As a point of reference, in any given year, foreign affiliate exports typically account for one-fifth of total U.S. merchandise trade, with the bulk of these exports resembling intra-firm trade, or trade between the affiliate and parent company. In 2014, the last year of available data, U.S. exports shipped by all foreign affiliates totaled \$425 billion, with European affiliates accounting for 54% of the total. The United Kingdom and Germany dominate European affiliate exports from the United States, with UK affiliates in America exporting \$73 billion worth of goods in 2014 and German affiliates exporting \$45 billion in goods. By commodity, the largest exports of British-owned affiliates were petroleum and coal products, the largest

exports of German-owned affiliates were chemicals and autos. In the end, the more European affiliates export from the United States, the higher the number of jobs for U.S. workers and the greater the U.S. export figures.

Every U.S. state maintains cross-border ties with Europe, with various European countries key export markets for many U.S. states, a dynamic that creates and generates growth in the United States. However, the growth differential between the United States and Europe over the past few years has meant a large U.S. trade deficit with Europe. The U.S. trade deficit (in goods) for 2016 with the European Union totaled \$146 billion, down 6% from the prior year. In 2016, both U.S. exports to and imports from the European Union fell modestly.

U.S. merchandise exports to Europe by state varied in 2015. Table 7 ranks the top 20 state goods exporters to Europe in 2015, with California ranked number one, followed by Texas, New York and Washington. Exports fell in 2015 from the prior year but have jumped sizably since 2000.

Table 8 shows that even in the face of weak European demand, 45 of the 50 states exported more to Europe than China in 2015. Goods exports from California to Europe were double those to China; New York exports to Europe were more than seven times those to China. Exports from Texas to Europe were almost three times larger than exports to China.

Only the Pacific-oriented states of Washington, Hawaii, Alaska, Idaho and Oregon sent more goods to China than Europe in 2015.

In addition, while the 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 jobs and incomes for U.S. workers, with most U.S. jobs tied to services. Europe is by far the most important market in the world for U.S. services, and the United States consistently records a service trade surplus with Europe. Suffice it to say that if services exports were added to goods exports by state, the European market becomes even more important for individual states.

By destination, key markets in Europe for U.S. states include Germany, the United Kingdom, and the Netherlands. Appendix 1 highlights European-related jobs, trade, and investment for each of the 50 states.

TABLE 8: U.S. STATE EXPORTS TO EUROPE AND CHINA, 2015 (MILLIONS OF \$)

U.S. State	Europe	China	U.S. State	Europe	China
Alabama	4,640	3,115	Montana	208	135
Alaska	860	1,203	Nebraska	921	484
Arizona	4,344	1,266	Nevada	3,102	427
Arkansas	1,200	203	New Hampshire	1,282	282
California	33,113	14,387	New Jersey	8,955	1,537
Colorado	1,771	662	New Mexico	369	117
Connecticut	6,273	1,028	New York	28,161	3,746
Delaware	1,748	387	North Carolina	6,972	2,098
Florida	9,024	1,114	North Dakota	262	17
Georgia	8,978	2,649	Ohio	9,478	3,359
Hawaii	30	78	Oklahoma	956	166
Idaho	382	561	Oregon	2,519	4,823
Illinois	12,333	4,875	Pennsylvania	10,487	2,061
Indiana	9,492	1,265	Rhode Island	626	130
Iowa	2,124	1,199	South Carolina	9,758	4,401
Kansas	1,854	986	South Dakota	121	34
Kentucky	8,283	1,929	Tennessee	6,200	2,228
Louisiana	10,684	6,575	Texas	31,851	11,529
Maine	455	208	Utah	4,699	841
Maryland	2,589	487	Vermont	428	220
Massachusetts	9,537	2,053	Virginia	5,041	1,707
Michigan	6,865	3,210	Washington	14,187	19,486
Minnesota	4,562	1,808	West Virginia	1,867	456
Mississippi	1,896	520	Wisconsin	4,207	1,545
Missouri	2,444	868	Wyoming	121	12

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