

Staying the Course:

The Case for Investing in Europe 2018

Joseph P. Quinlan






AmCham EU
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

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In a world of perpetual change, one thread of continuity is the deep integration of Europe and the United States. It is Europe's size and wealth, depth in human capital, and respect for the rule of law, among other attributes, that makes the region a natural partner of the United States.

The post-war economic integration of the European Union is one of the greatest triumphs of the past 65 years. At the core of Europe's peace, reconciliation and prosperity is the fact that no other region in the world has successfully integrated and grown as a single entity like the EU over the past half century.

Europe still remains among the most attractive long-term places in the world for business.

Here is why.

Acknowledgements

I would like to thank AmCham EU for spearheading this project and for their input and insight in putting together this report. A special 'thank you' to Thibaut L'Ortye and team at AmCham EU for their invaluable assistance. I also want to thank the companies that provided case studies for this report—their input helps to bring to life what statistics cannot. The views expressed here are my own, and do not necessarily represent those of AmCham EU.

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Credits

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Foreword

Looking beneath the surface

SUSAN DANGER
CEO, AMCHAM EU

'Troubled waters'. Of all the metaphors that have been used to describe the current state of world affairs, this one holds a particular lesson for Europe and the United States.

When we speak of 'troubled waters', we tend to focus on the turmoil and the uncertainty associated with the storm. We look to the moment when the rain will stop and the horizon will clear. The rolling waves and the lashing wind are all we can think about. Yet, there is a much stronger phenomenon that continues to be at play deeper under the sea—often unnoticed. Below the water, the underlying currents continue to run quietly, unaffected by the storm. Steadfast, strong, relentless. They may be easy to miss as we try to master the waves.

This is the story Joseph Quinlan tells in this new edition of *The Case for Investing in Europe*. He describes one of these underlying currents: the longstanding relationship between Europe and the United States. He calls it the 'one thread of continuity' in the global economy. This partnership builds on decades of dialogue and an unwavering commitment to shared values.

Joseph Quinlan lays out why Europe and the United States are stronger together and describes the deep ties that bind both sides of the Atlantic. American companies have found a second home in Europe. With 60% of total U.S. foreign direct investment going to Europe every year, their contribution to the European economy is enormous. In turn, Europe is a critical source of global profits for American companies. Simply put, Europe and the United States thrive together.

Throughout the report, you will find a series of testimonials from senior business executives. They are members of AmCham EU's Executive Council—a group of twenty CEOs who lead the European operations of some of the world's largest companies. With enthusiasm and passion, they advocate for a stronger and more competitive Europe in the global economy. As they tell the story of their own companies, they demonstrate the breadth of their operations in Europe and their positive impact on local communities.

When you take the time to look beneath the surface, you notice the gentle strength of the underlying current—despite the troubled waters. At testing times, the transatlantic relationship continues to rest on solid foundations. And the case for investing in Europe remains as strong as ever.

Invested in Europe: Our Stories

American companies have deep and longstanding ties in Europe. In 2017, U.S. investment totalled more than €2 trillion and directly supported more than 4.7 million jobs. Along with creating jobs, developing infrastructure and driving innovation, American companies also invest in people and communities through social and educational programs, research and development or environmental and health initiatives.

Find out more about these investments and their social impact on the Invested in Europe: Our Stories platform. It brings together initiatives led by U.S. companies tackling student poverty in France, building youth facilities in Bulgaria, creating low-emission mobility options in Belgium or developing new infrastructure for the Internet of Things in Germany.

Read our stories:

investedineurope.eu

#investedinEU

What You Need to Know

Notwithstanding the incessant swirl of change, one strand of continuity remains: the deep integration of the U.S. and Europe, with each party drawing strength and stability from each other. Today, the transatlantic economy remains the bedrock of the global economy. Indeed, as 2018 draws to a close, it is the emerging markets—Turkey, Argentina, and South Africa, for instance—putting the most strain on global growth. The United States leads the global expansion, followed by China and the European Union.

For American firms that have stayed the course in Europe, and persevered through the last few years of sluggish growth, as well as the political ripples of Brexit, Europe remains among the most attractive markets in the world.

The bottom line: whether it's trade in goods or services; whether the activity is expanding R&D in France; or hiring new workers in Germany or Spain; building out a facility in Ireland or Poland; driving profits from the United Kingdom or the Netherlands—whatever the activity, the simple message is the following: Europe matters to Corporate America. Outside the United States, no other region of the world has such an outsized influence on the economic success or failure of U.S. firms as Europe.

The case for Europe rests on ten building blocks:

1 One of the world's largest and wealthiest markets

Roughly 25% of world output

2 Highly skilled and productive workforce

Leader in science and engineering talent

3 500 million consumers and rising incomes

21% of global personal expenditures in the EU (2016)

4 Economy on the upswing

Cyclical uptrend in GDP growth, with dropping unemployment

5 Innovation and world-class R&D infrastructure

21% of global R&D spending in Europe (2017)

6 Ongoing long-term structural reforms

Embracing change in labor markets and the public sector

7 Renewed political vision for the EU

Stronger institutional framework of the EU and the Eurozone

8 Most competitive economies in the world

6 European countries in top 10

9 Easy to do business

Most business-friendly nations: 14 European countries in top 25

10 Access to a large and attractive periphery

Springboard to growing economies at Europe's door

1

What's Right with Europe

Bend not break—that is the best way to describe our view of the transatlantic partnership as the world heads toward 2019. This year has been very challenging for the partnership. U.S.-EU trade tensions have been elevated for most of the year, and while a 'truce' was declared in the summer, trade relations remain fragile and fraught with risk. However, at the end of the day, we do not anticipate a structural commercial break between the United States and Europe. The trade ties are too deep; the investment linkages too embedded; and commercial interdependence too interconnected. The relationship is under strain—but it will bend, not break.

Europe remains a critical commercial ally of the United States because there is plenty right with Europe—one of the largest and wealthiest economic entities in the world. Since our last publication, the economic expansion in Europe continues, although the rate of growth in the U.S. has accelerated at an even faster pace. That said, the European Union (EU) is presently in the midst of one of the longest economic expansions of this century.

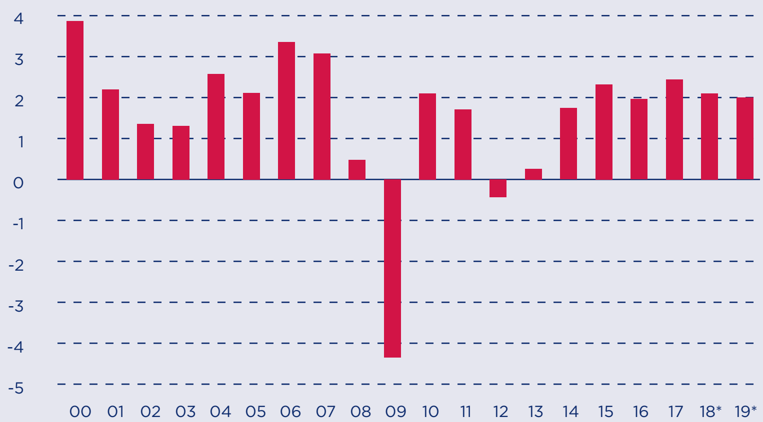
What's more, the nascent populist tide across Europe has peaked—at least for now. After the Brexit vote and the equally stunning election victory of Donald Trump, the general fear was that anti-euro, isolationist candidates would gain power in the Netherlands, France and even Germany as each nation went to the polls last year. Fears over the disintegration of the EU have spiked in the last year.

The worst, however, has not come to pass. Yes, across Europe, nationalist-populist parties have made major gains over the past few years. Yet mainstream and traditional parties remain quite viable and key governing entities across Europe. As the economic picture in Europe has improved over the past year, the appeal and approval of populist candidates have been countered. Nationalist parties are not easy to dismiss but remain, at this juncture, a noisy minority in government as opposed to the governing majority. While there remains a strong undercurrent of political populism in both the U.S. and Europe, the tide has not fully turned against more market-friendly, pro-euro candidates in Europe.

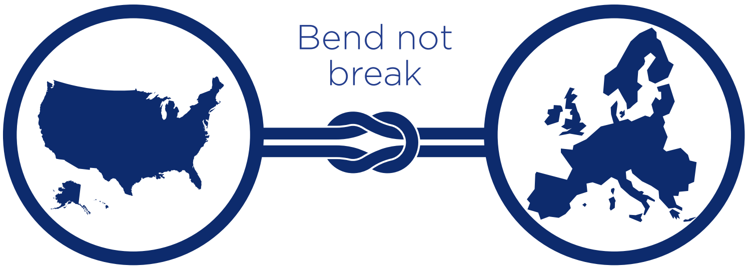
According to data from the World Bank, the EU saw strong economic growth last year of 2.4%. In addition the current expansion has become broad-based across many economies, with each member state posting positive real GDP growth for the first time since the crisis.

Though a softening of economic data in the first half of this year has caused some economists to revise Europe's

1.1 Real GDP Growth in the EU (Annual % change)



*2018-2019 European Commission forecast.
Source: World Bank, European Commission.
Data as of July 2018.



2018 GDP forecast downward, growth should still be relatively strong. The European Commission's revised GDP forecast, as of July this year, shows a solid 2.1% annual pace for 2018 and 2.0% for 2019 (*Exhibit 1.1*), though political uncertainty and higher oil prices could lead to more dispersion in economic performance across countries.

Yet for U.S. firms that have stayed the course in Europe, despite sluggish growth in real demand and the political ripples of Brexit, business prospects are improving. Europe remains among the most attractive markets in the world for American companies.

So what's right about Europe?

For starters, let's not forget that the post-war economic integration of the EU is one of the greatest triumphs of the past sixty-five years. It ranks right up there with the rise of China over the past three decades—a fact forgotten by many mesmerized by China's rapid ascent. The China story is impressive; so is the European story. At the core of Europe's peace, reconciliation and prosperity is the fact that no other region of the world has successfully integrated and grown as a single entity like the EU over the past half century. What started out as a small bloc of six founding nations (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) in the 1950s has grown into a peaceful economic behemoth in the intervening decades. In the process, Europe has emerged economically stronger, giving the world economy sturdier underpins.

In the grand sweep of history, Europe is a continent of success. With the helping hand of the United States, the post-WWII global economy has flourished, and Europe has emerged from the ashes of war to become one of the largest and wealthiest economic blocs in the world.

Second, while both the U.S. and China loom large in the hierarchy of the global economy, so does the EU. 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) accounted for 23.0% of world output in 2017 according to the IMF. That was slightly less than America's share (24.3%), but in excess of China's 15.0% and far exceeding India's 3.3%. Based on purchasing power parity figures, which adjusts to local factors, the EU's (plus Norway, Switzerland, Iceland) share of global output of 17.2% was greater than that of the U.S. (15.3%) but slightly behind China's (18.2%) in 2017.

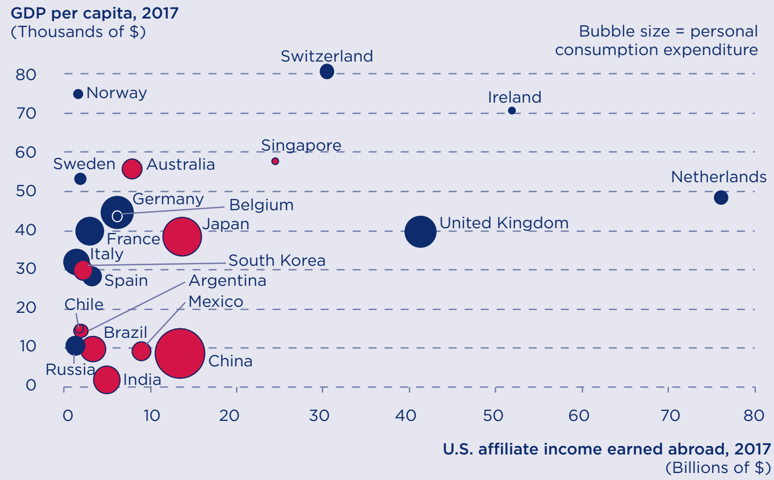
In other words, the sum of Europe's parts is greater than any other economic entity in the world, bar China. By breaking down barriers to trade and investment, by allowing for the free flow of capital and people, by opting for a Single Market and a single currency in many cases, by embracing these and other market-friendly polices over the

With the helping hand of the United States, Europe has emerged from the ashes of war to become one of the largest and wealthiest economic blocs in the world

past few decades, Europe has created a massive collective market out of many sovereign entities. This is true even when the United Kingdom (UK) is subtracted from the total, with the EU's global share of output totaling about 15% minus the UK. As an aside, the transatlantic economy (or the combined GDP of the U.S. and the EU) totaled roughly 32% of global 2017 GDP, above the combined output of China and India—26%.

Third, Europe is not only large but also wealthy, and wealth matters. Wealth is associated with highly skilled/productive labor, rising per capita incomes, advanced innovation, and a world-class research and development (R&D) infrastructure, among other things. In the aggregate, sixteen of the twenty-five wealthiest nations in the world are European. Notice from *Exhibit 1.2*, the elevated per capita GDP levels in countries such as Switzerland, Norway, Ireland, the Netherlands, Sweden, Germany, Belgium, the UK and France (as measured by the vertical scale in thousands of dollars). In many of these countries, U.S. affiliates have been quick to take advantage of the wealthy European consumer, with the Netherlands, Ireland, the UK and Switzerland ranking among the top markets for U.S. affiliate income (as measured by the horizontal scale in billions of dollars). Per capita incomes in the developing markets of Latin America, India, and China, clustered in the bottom left of the chart, do not even come close to the wealth exhibited by the EU.

1.2 The Wealth of Nations vs. U.S. Affiliate Income

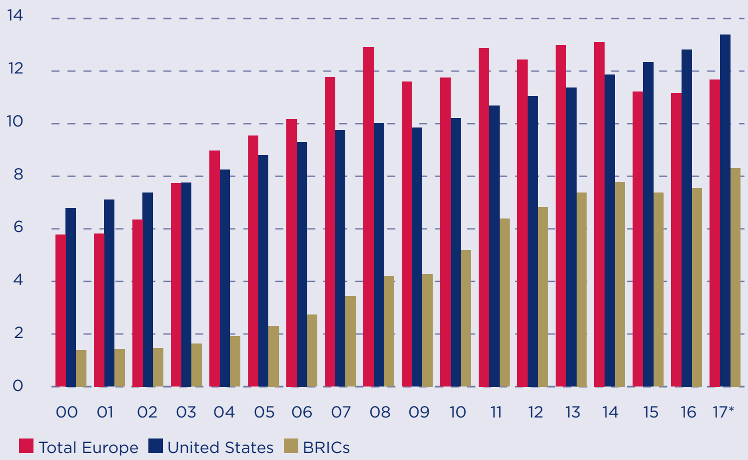


Note: for comparison, UK's bubble size represents $1.7 trillion PCE.

Source: International Monetary Fund, Bureau of Economic Analysis, United Nations.
Data as of 2018.

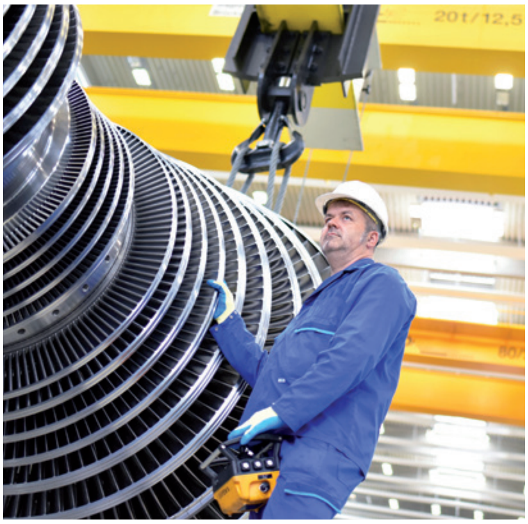
1.3 The Spending Power of the European Consumer

(Household consumption expenditures, Trillions of current U.S. dollars)



*Estimate.
Europe = EU28 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Iceland, Kosovo, Macedonia, Moldova, Montenegro, Norway, Russia, San Marino, Serbia, Switzerland, Turkey, and Ukraine.

Source: United Nations.
Data as of January 2018.



1.4 Top 30 Rankings in the Global Competitiveness Index 2017-2018

Economy	Rank	Score
Switzerland	1	5.86
United States	2	5.85
Singapore	3	5.71
Netherlands	4	5.66
Germany	5	5.65
Hong Kong	6	5.53
Sweden	7	5.52
United Kingdom	8	5.51
Japan	9	5.49
Finland	10	5.49
Norway	11	5.40
Demark	12	5.39
New Zealand	13	5.37
Canada	14	5.35
Taiwan	15	5.33
Israel	16	5.31
United Arab Emirates	17	5.30
Austria	18	5.25
Luxembourg	19	5.23
Belgium	20	5.23
Australia	21	5.19
France	22	5.18
Malaysia	23	5.17
Ireland	24	5.16
Qatar	25	5.11
Korea	26	5.07
China	27	5.00
Iceland	28	4.99
Estonia	29	4.85
Saudi Arabia	30	4.83

Source: World Economic Forum: Global Competitiveness Report 2017-2018.
Data as of September 26, 2017.

Fourth, wealth drives consumption, with the EU accounting for roughly 21% of global personal consumption expenditures in 2016, a slightly lower share than that of the U.S. but well above that of China (10%) and India (3%) and the BRICs combined (17%). Since 2000, personal consumption expenditures in Europe have doubled (*Exhibit 1.3*). Gaining access to wealthy consumers is among the primary reasons why U.S. firms invest overseas, and hence the continued attractiveness of wealthy Europe to American companies.

Fifth, Europe's long recognized structural problems have obscured a critical fact about the region's global competitiveness: that, notwithstanding key challenges like an aging and declining labor force, many European economies remain among the most competitive in the world. For instance, in the latest ranking of global competitiveness from the World Economic Forum, six European countries were ranked among the top ten, and nine more among the top thirty *(Exhibit 1.4)*.

Related to this point, Europe is no slouch when it comes to innovation and knowledge-based activities. Based on the European Commission's Innovation Scoreboard for 2018, Denmark, Finland, Luxembourg, the Netherlands, Sweden, and the UK rank as innovation leaders in Europe. In the aggregate, Europe accounted for roughly 21.0% of total global R&D in 2017, based on

purchasing-power parity. That lagged the share of the U.S. (25.6%) and China (21.2%) but was ahead of spending in Japan (8.8%) and India (3.7%). Of the total EU spend on R&D, almost 65% is performed by the private sector, driving the regions' leadership in a number of cutting-edge industries including life sciences, agriculture and food production, automotives, aerospace, nanotechnology, renewable energy, and information and communications.

Sixth, the ease of doing business is generally better in Europe than in many other parts of the world. Remember: the rate by which a particular economy grows certainly matters to U.S. multinationals, hence the attraction towards the super-hyped economies of China, Brazil, and India, who incidentally are not so 'super' anymore. Growth in all three nations has slowed in recent years, with Brazil rebounding from its longest recession in history.

In addition, 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

1.5 Ease of Doing Business 2018 Global Rankings: The Top 25

Rank	Country
1	New Zealand
2	Singapore
3	Denmark
4	Korea
5	Hong Kong
6	United States
7	United Kingdom
8	Norway
9	Georgia
10	Sweden
11	Macedonia
12	Estonia
13	Finland
14	Australia
15	Taiwan
16	Lithuania
17	Ireland
18	Canada
19	Latvia
20	Germany
21	United Arab Emirates
22	Austria
23	Iceland
24	Malaysia
25	Mauritius

Source: World Bank, Ease of Doing Business Report 2018. Data as of October 31, 2017.

European countries rank as the most attractive in the world.

According to the World Bank's 2018 *Ease of Doing Business* report, fourteen European economies ranked in the top twenty-five most business-friendly nations (*Exhibit 1.5*). Denmark ranked third overall, followed by the United Kingdom (7th), Norway (8th), Georgia (9th), Sweden (10th), Macedonia (11th), Estonia (12th), Finland (13th), Lithuania (16th), Ireland (17th), Latvia (19th), Germany (20th), Austria (22nd), and Iceland (23rd).

Nearly 60% of U.S. global earnings come from Europe

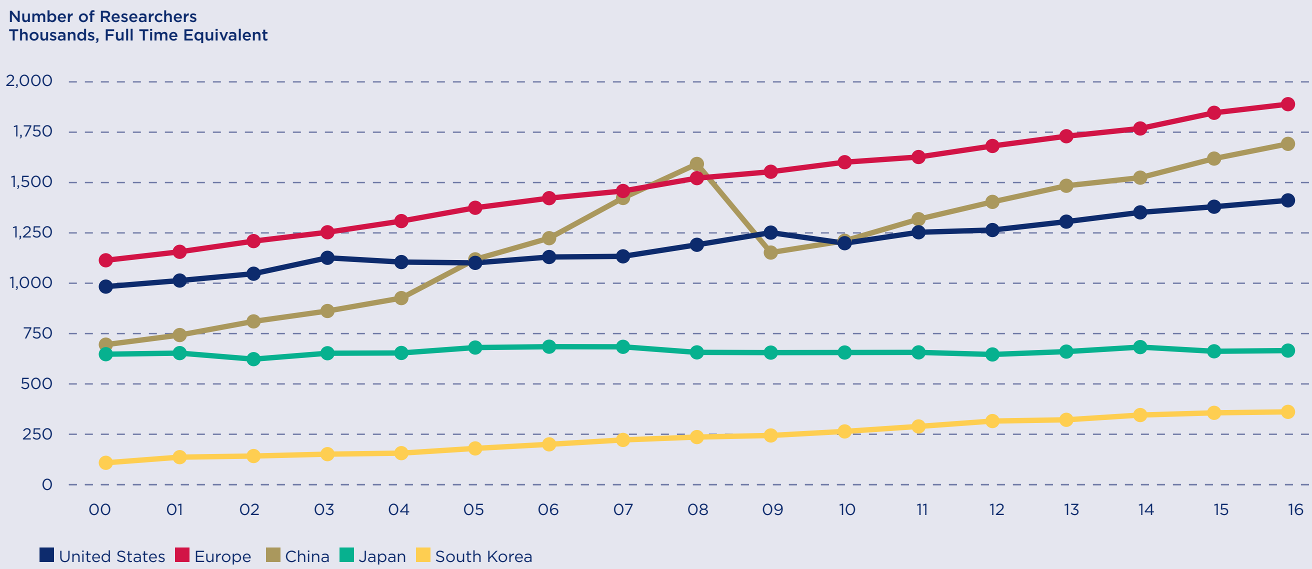
Add it all up: large, wealthy, competitive, and well-endowed with a large pool of skilled labor

Outliers include Italy, ranked 46th, along with Croatia (51st), Belgium (52nd), and Greece (67th). Reflecting the challenging business environment of many key emerging markets, China ranked 78th in terms of ease of doing business in 2017, while India ranked 100th. Brazil clocked in at 125th.

Finally, in that innovation requires talent, Europe is a global leader in producing science and engineering talent, with the EU accounting for 12% of global science and engineering graduates, according to the latest data from the National Science Foundation. America's share was just 9% of the global total. In that the U.S. economy is short of technology and scientific talent, accessing Europe's tech talent pool is critical to the long-term health of many U.S. firms.

Although China, home to 1.4 billion people, now represents a larger share of the total science and engineering graduates, Europe has maintained its lead in number of researchers—or, as defined by the OECD, professionals engaged in the conception, creation or management of new knowledge, products, processes, methods and systems (*Exhibit 1.6*).

1.6 Global Research: Europe Leads the Way



*OECD defines researchers as professionals engaged in the conception or creation of new knowledge, products, processes, methods and systems, as well as in the management of the projects concerned. U.S. data for 2016 is author's estimate.

Source: OECD, Main Science and Technology Indicators.
Data as of August 2018.

TESTIMONIAL

**LOU RIVIECCIO,
PRESIDENT, UPS EUROPE**

A home to more than 500 million potential customers, Europe remains among the most attractive long-term places in the world for business. As a producer of many of the world's finest products, it is a key market for a logistics company like UPS, which has the expertise and network to reliably connect sellers and buyers in more than 220 countries and territories.

In 2015, we began to implement a five-year, $2 billion investment plan to strengthen our European network and infrastructure. This investment includes a redesign of our air and ground network to speed up shipment transit times and the construction of new facilities and expansion of existing ones to increase capacity for our customers.

The mission is to help our Europe-based customers, no matter their size or industry, realize their growth goals within the European Union, as well as outside of Europe. Our European investment program goes hand-in-hand with some of the EU's key long-term growth objectives related to international trade, the digital single market and SMEs.

Our growing smart global logistics network—which in Europe is centered around our air hub in Cologne, Germany—puts us in an excellent position to support the new export opportunities resulting from the recent EU trade agreements with countries like Japan, Mexico and Canada. Our focus is to help small and medium-sized businesses—the backbone of the European economy—take the plunge into the global marketplace.

Europe aims to grow its position in the world of digital trade. As a result, UPS is creating new solutions for e-commerce traders and consumers. We offer more than 16,000 UPS Access Point locations across Europe, providing convenience and control for consumers collecting their online purchases. Additionally, UPS My Choice provides customers with a new level of flexibility by offering assistance with scheduled deliveries, shipment alerts, rerouting packages and more.

Europe continues to be a great growth story for UPS, and we look forward to our prospects in this large and dynamic market.

$2 billion

Five-year investment plan to strengthen the UPS European network and infrastructure

Since 2010, the number of EU researchers has risen 18% to almost 2 million full time equivalent workers in 2016, far outpacing the overall EU population growth of 2% over the same timeframe.

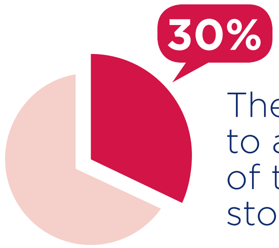
Add it all up and Europe—large, wealthy, competitive, and well-endowed with a large pool of skilled labor—remains a formidable economic entity with a great deal more upside than commonly thought.

Yes, the region has plenty of problems and challenges before it—all well documented. Less appreciated, however, are Europe's many strengths and copious attributes that, among other things, have been hugely beneficial to U.S. multinationals.

Remember: nearly 60% of U.S. global foreign affiliate income (a proxy for global earnings) comes courtesy of Europe. America's transatlantic partnership with Europe yields significant dividends, in other words. More on that in Chapter Two.

2

Why Europe Still Matters

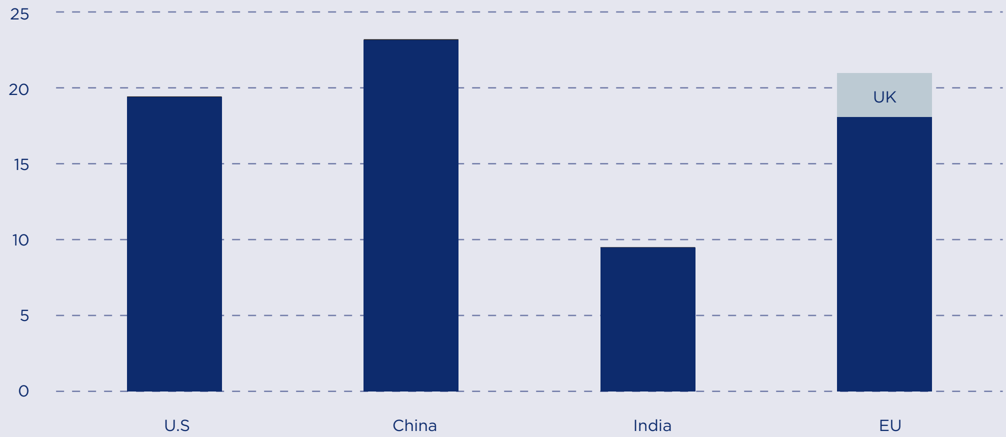


The EU is home to almost 30% of total FDI stock

Investing in emerging markets such as China, India and Brazil remains very difficult

2.1 EU GDP vs. U.S., China and India

(Trillions of current international dollars, based on purchasing-power-parity)



Source: International Monetary Fund.
Data for the year 2017. Data as of April 2018.

As highlighted in Chapter One, Europe remains a key pillar of the global economy and a critical component to the corporate success of U.S. firms. While it is the U.S. and the emerging markets, led by China, that are thought to be the largest economies in the world, the EU also ranks as an economic heavyweight. As depicted in *Exhibit 2.1*, the EU lags only China when it comes to gross domestic output based on a purchasing-power parity basis.

Given its economic heft, it is little wonder the EU remains a primary location for foreign direct investment (FDI). To this point, the EU is home to almost 30% of the total global stock of FDI, according to data from the United Nations (UN). In terms of global flows, the EU accounted for 21.2% of global FDI inflows in 2017, only slightly ahead of North America (21.0%) and lagging Asia (34%).

Most of the weakness in flows to the EU in 2017 (down 42%) was due to a normalization of mergers and acquisitions (M&A) after a surge of deal activity the prior year that inflated the 2016 figures. For instance, FDI flows to the UK grew from $33 billion in 2015 to $196 billion in 2016, only to retreat to $15 billion in 2017. Looking beyond the large swings in

Economic growth in Europe is on the rebound

M&A activity, Greenfield FDI flows to the UK, or foreign investment in new assets, have declined 37% since 2015, while the European Union as a whole reported a 10% increase—a sign that political uncertainty surrounding Brexit negotiations could also be leading to stalled business investment decisions in the UK.

In contrast, several countries on the continent ranked among the most attractive locations for foreign direct investment flows. The Netherlands, France, Switzerland, Germany, Ireland, Russia, Spain and Italy took 8 of the top 20 spots for FDI inflows in 2017, according to the UN.

2.2 Cumulative U.S. FDI Outflows (Millions of $)

Economy	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%
2010-2017	2,482,988	1,390,581	56.0%

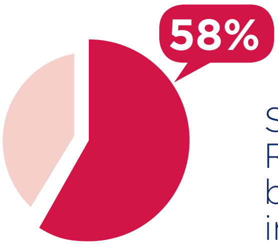
Source: Bureau of Economic Analysis.
Data as of June 2018.

Europe as key destination for U.S. investment

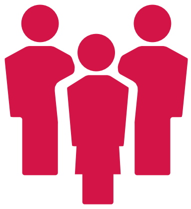
As *Exhibit 2.2* highlights, Europe continues to attract more than half of U.S. aggregate FDI outflows. The region's share of U.S. FDI has averaged roughly 56% this decade, on par with recent decades. That Europe remains the favored destination of U.S. firms runs counter to the fashionable narrative that Corporate America prefers low-cost nations in 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. In particular, the investment climate in China has become notably more challenging for U.S. and European multinationals, with Chinese policies more restrictive towards foreign enterprises.

Second, real growth in the emerging markets has downshifted, notably in Brazil, Russia and even China. Both Russia and Brazil have broken free of recession, though real GDP growth rates remain sluggish. In China, meanwhile, growth has fundamentally slowed as the



Share of total R&D spending by U.S. affiliates in Europe (2016)



4.7 million workers

U.S. foreign affiliates employement in Europe (2016)

nation shifts towards more consumption and service-led growth and away from export- and investment-driven growth. India's economy is expanding at a 6-7% annual clip, but the nation remains too poor and too difficult to navigate to make much of difference to the bottom line of Corporate America.

Third, as highlighted in Chapter One, economic growth in Europe remains steady. Real economic activity accelerated in 2017 and should remain solid this year thanks to the European Central Bank (ECB)'s accommodative monetary policies, improving labor conditions, and strong consumer confidence. The region is in the midst of one of the strongest cyclical rebounds in years, with growth driven by both exports and consumption. The latter, personal consumption, has been bolstered by the decline in unemployment, with the EU unemployment rate at 6.8% in July. Still, downside pressures to growth have also emerged, such as trade policy uncertainty and financial vulnerabilities in some markets.

Finally, when investing overseas, U.S. firms are more interested in accessing wealthy consumers and skilled workers, not cheap labor. Hence the primacy of Europe in the eyes of U.S. multinationals. Europe is large, wealthy, and has an abundance of skilled labor. India and China, in contrast, are large but poor, with underdeveloped human capital. Against this backdrop, Europe, despite a half decade of sluggish real growth, remains Corporate America's top destination for FDI in the post-crisis era.

The presence of U.S. firms in Europe

And for U.S. firms that have stayed the course in Europe over the past few years, business prospects are set to turn better over the medium term. That is welcomed news for Corporate America given the in-country presence of U.S. firms in Europe best highlighted by the following:

- U.S. affiliates in Europe are among the largest and most advanced economic forces in the world. For instance, the total output of U.S. foreign affiliates in Europe ($665 billion in 2016) was greater than the total GDP of most nations. On a global basis, the aggregate output of U.S. foreign affiliates reached $1.3 trillion in 2016, with Europe (broadly defined) accounting for over 50% of the total.

- The global footprint of Corporate America in Europe is simply staggering. According to the latest figures from the Bureau of Economic Analysis, U.S. foreign assets in Europe totaled $15.6 trillion in 2016, representing roughly 60% of the global total.

- U.S. foreign affiliates are a major source of employment in Europe. U.S. foreign affiliates in Europe have

Sales of U.S. affiliates in Europe are twice as large as sales of U.S. affiliates in the entire Asian region

Europe remains a critical source of global profits for U.S. firms

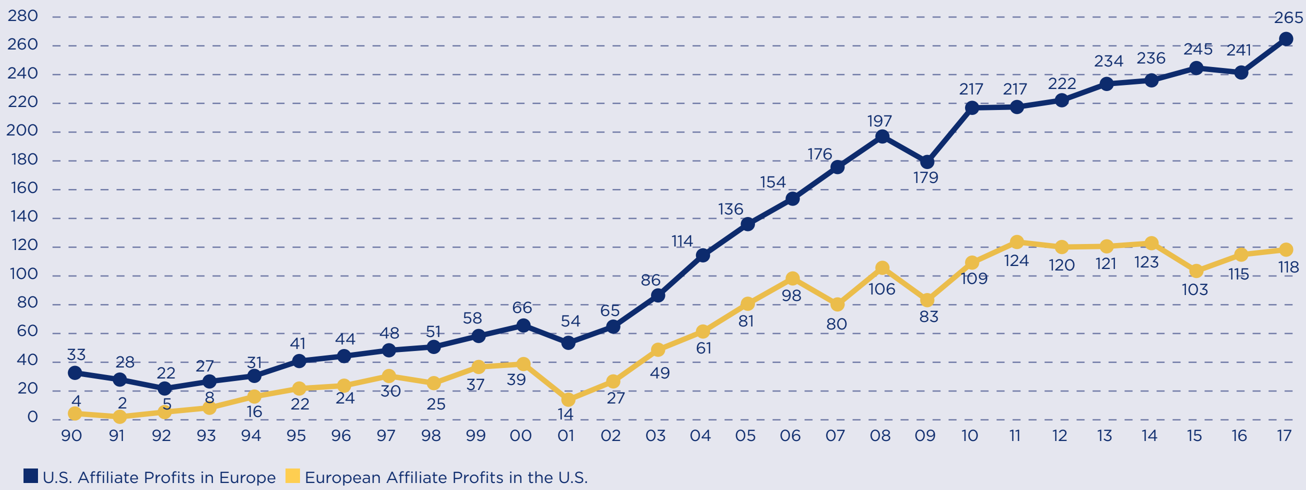
added roughly one million workers to their payrolls since the start of the century, with affiliate employment in Europe rising from 3.7 million workers in 2000 to 4.7 million workers in 2016. By our estimates, we forecast that U.S. foreign affiliates in Europe employed 4.8 million workers in 2017. On a global basis, U.S. majority-owned affiliates (including bank and non-bank affiliates) employed roughly 14.3 million workers in 2016, with the bulk of these workers—roughly 33%—toiling in Europe. Interestingly, U.S. affiliates employed more manufacturing workers in Europe in 2016 (1.9 million) than in 1990 (1.6 million). This reflects the EU enlargement process, and hence greater access to more manufacturing workers, and the premium U.S. firms place on highly skilled manufacturing workers, with Europe being one of the largest sources in the world.

- In 2016, the last year of available data, U.S. affiliates sunk $31.3 billion on research and development in Europe, down slightly from the previous year ($32.6 billion), but up 31% from a post-crisis lows of $23.9 billion in 2010. Europe accounted for 58% of total U.S. affiliate R&D in 2016. R&D expenditures by U.S. affiliates were greatest in Germany ($9.0 billion), the United Kingdom ($6.0 billion), Switzerland ($3.0 billion), Ireland ($2.9 billion), France ($2.3 billion), Belgium ($1.7 billion) and the Netherlands ($1.2 billion). These seven nations accounted for 83% of U.S. spending on R&D in Europe in 2016.

- U.S. majority-owned foreign affiliate sales on a global basis (goods and services) totaled $5.8 trillion in 2016, with affiliate sales in Europe accounting for $2.8 trillion. Reflecting the primacy of Europe, sales of U.S. affiliates in Europe were almost double the comparable figures for the entire Asian region in 2016, the last year of available data. Affiliate sales in the UK ($607 billion) were more than double the total sales in South America. Sales in Germany ($341 billion) were more than double the combined sales in Africa and the Middle East. U.S. affiliate sales of $345 billion in China in 2016 were below those in Ireland ($362 billion).

- Finally, Europe remains a critical source of global profits for U.S. firms. In 2017, U.S. affiliate income in Europe rose 10% to a record high of $265 billion. *Exhibit 2.3* illustrates the handsome dividends rewarded to multinational companies invested in Europe. Indeed, the transatlantic partnership has been beneficial for both parties. When it comes to the bottom line—corporate earnings—both U.S. and European firms, including their workers and shareholders, have prospered from the deepening bonds of the transatlantic economy.

2.3 Foreign Affiliate Profits in U.S. and Europe Advance
(Billions of $)



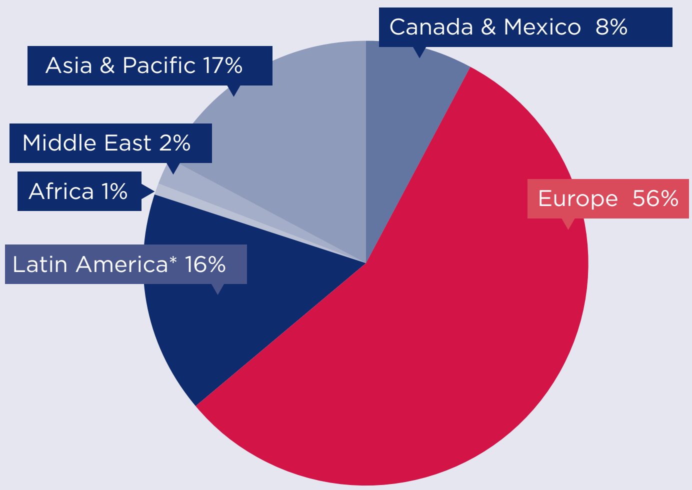
Source: Bureau of Economic Analysis.
Data as of June 2018.

Note that between 1990 and 2000, what U.S. affiliates earned in Europe doubled from $33 billion to $66 billion. The creation of the Single Market in 1992 helped drive this process, as did underlying growth in Europe. The profits picture only improved in the ensuing decades—indeed between 2000 and 2017, U.S. affiliate income in Europe increased four-fold, as multinationals continued to expand their operations abroad.

Meanwhile, affiliates of European multinationals located in the U.S. also recorded strong earnings growth since the start of the century, though profits have stalled since 2011. The $118 billion of earnings that European affiliates in the U.S. recorded last year is more than triple the amount earned in 2000.

As shown in *Exhibit 2.4,* Europe still accounts for the bulk of U.S. global foreign affiliate income, with the region accounting for roughly 56% of global income last year. In other words, what U.S. foreign affiliates earned in Europe in 2017 was more than the affiliate income of all other countries combined. Earnings from China and India in 2017 ($18 billion) were only around one-quarter of what U.S. affiliates earned in the Netherlands and also a relatively small figure when compared to U.S. earnings in countries such as the UK and Ireland.

2.4 Affiliate earnings of U.S. multinationals, 2017
(% of total)



*Excluding Mexico, including other western hemisphere.

Source: Bureau of Economic Analysis.
Data as of June 2018.

Taking the long view, the transatlantic partnership—through thick and thin—continues to yield significant benefits to companies on both sides of the Atlantic. And these benefits, in general, have spread far and wide. Rising U.S. foreign affiliate earnings in Europe, for instance, have underpinned more output and employment growth in Europe, more R&D expenditures across the continent, and more bi-lateral trade not only between the U.S. and Europe but also between Europe and many other parts of the world. U.S. foreign affiliates in Europe have long been agents of growth in virtually every country in which they have operated.

Meanwhile, the more profitable U.S. affiliates are in Europe, the more earnings are available to the parent firm to hire and invest at home, dole out higher wages to U.S. workers, and/or increase dividends to U.S. shareholders. In other words, U.S. corporate success in Europe is hugely important to the overall and long-term success of many U.S. multinationals, and by extension, the U.S. economy. The more successful U.S. affiliates are in reaching new consumers in Europe and leveraging the continent's resources, the better off are the foreign affiliates, U.S. parent companies, U.S. workers, shareholders and local communities.

Being a part of Europe, or being 'inside' the EU, means being inside one of the largest economic entities in the world, and having the wherewithal to leverage Europe's many competitive advantages. One area in which Europe continues to show a competitive edge is innovation. According to Bloomberg's latest rankings, several nations in Europe are among the top locations for innovation (see *Exhibit 2.5*). Sweden, Germany and Switzerland were in the top 5 ranked countries for innovation, scoring high in categories such as R&D intensity, manufacturing value-added, concentration of high-tech companies and patent activity, among others. Finland and Denmark also received high marks for researcher concentration and R&D intensity. France gained two spots in the rankings last year, as the country has moved to the forefront of the technology scene with policies focused on fostering an environment of entrepreneurship and foreign investment. U.S. companies invested in these markets can benefit from supportive business policies as well as from the efficiencies gained by locating operations near a cluster of knowledge, talent and suppliers.

2.5 Bloomberg 2018 Innovation Index

Rank	Country
1	South Korea
2	Sweden
3	Singapore
4	Germany
5	Switzerland
6	Japan
7	Finland
8	Denmark
9	France
10	Israel
11	U.S.
12	Austria
13	Ireland
14	Belgium
15	Norway
16	Netherlands
17	U.K.
18	Australia
19	China
20	Italy
21	Poland
22	Canada
23	New Zealand
24	Iceland
25	Russia

Source: Bloomberg.
Data as of January 2018.

$298 billion

U.S. services exports to Europe in 2017

Another reason to be 'inside' Europe is to avoid costs associated with various nations' import tariffs and non-tariff barriers, all of which add to the cost of doing business and undermine U.S. competitiveness. Finally, for many U.S. service providers, the very nature of their products—whether a financial firm or a large-scale retailer—mandates that firms operate inside the EU. And given the potential of the massive market for various services in Europe, many U.S firms are doing just that.

Transatlantic Services: The Sleeping Giant of the Transatlantic Economy

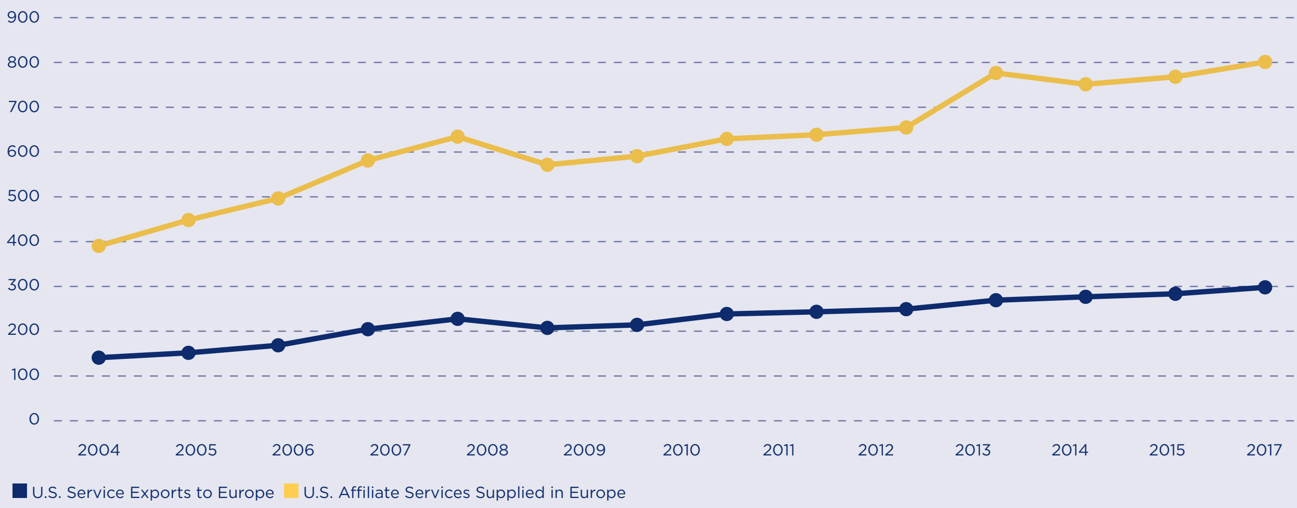
The service economy is a key area of the transatlantic relationship, offering significant opportunities for stronger and deeper transatlantic linkages.

That said, transatlantic ties in services—both in trade and investment—are already quite large. Indeed, the service economies of the United States and Europe have become even more intertwined over the past decade, with cross border trade in services and foreign affiliate sales of services continuing to expand in the post-crisis environment. Transatlantic linkages continue to deepen in insurance, education, telecommunications, transport, utilities, advertising and computer services. Other sectors such as aviation, e-health and e-commerce are slowly being liberalized and deregulated. Europe accounted for 37% of total U.S. service exports and for 43% of total U.S. services imports in 2017.

U.S. services exports to Europe reached a record $298 billion in 2017, up more than 40% from the cyclical lows of 2009, when exports to Europe plunged 9%. Services exports have been fueled by a number of services-related activities like travel, passenger fares, education and financial services. As for U.S. services imports from Europe, figures for 2017 were also at all-time highs, totaling $232 billion—a figure 39% larger than the depressed levels of 2009. The United Kingdom, Germany, Switzerland, Ireland, France and Italy all rank as top service exporters to the United States. All counted, the U.S. enjoyed a $66 billion trade surplus in services with Europe in 2017, versus a $175 billion trade deficit in goods with Europe.

Beyond services trade, there are the activities of foreign affiliates, with transatlantic foreign affiliate sales of services much deeper and thicker than traditional trade figures suggest. Indeed, sales of affiliates have exploded on both sides of the Atlantic over the past few decades thanks to the falling communication costs and the proliferation of the internet. Affiliate sales of services have not only supplemented trade in services but also have become the overwhelming mode of delivery in a rather short period of time. In 2016, the last year of full data, U.S. affiliate services sales in Europe ($767 billion)

2.6 U.S.-Europe services linkages (Billions of $)



Majority-owned bank and non-bank affiliates. Services supplied in Europe Estimates for 2017. Note, in 2014 there was a sizable increase in the number of reporting enterprises for foreign affiliate services, leading to an increase in aggregate services supplied.
Source: Bureau of Economic Analysis.
Data as of August 2018.

were more than double the level of U.S. services exports ($284 billion). We estimate these sales will top $800 billion in 2017, well above services exports from that year of $298 billion (see *Exhibit 2.6*).

That said, while both U.S. exports of services and affiliate sales of services have increased over the past decade, there is more upside if the U.S. and Europe can move towards more harmonization via many service activities. On the downside, Europe's service sector remains highly fragmented and protected, with many service standards or codes in one nation not recognized by another nation, a situation that keeps markets closed and less integrated, and prevents efficiency and cost benefits from being realized. Europe's digital economy is also highly fragmented, and differs considerably with U.S. standards and protocols around digital data storage, collection and transmission. What's more, businesses operating in Europe must now navigate the EU's sweeping new General Data Protection Regulation (GDPR), introduced in May, when handling customer data and designing data privacy frameworks.

Against this backdrop, services are among the last frontiers of Europe. There is massive upside for more seamless service activities between the U.S. and Europe.

In the end, no region of the world has as outsized an influence on the economic success or failure of U.S. firms as Europe. Whether it's trading goods or services overseas, selling products and services in the local market, building out manufacturing facilities, investing in R&D, or hiring and training workers across the continent, the simple message is the following: Europe matters to Corporate America.

TESTIMONIAL

**CHRIS DELANEY,
PRESIDENT, EMEA, GOODYEAR**

As Goodyear celebrates our 120th anniversary this year, I am proud of our company's commitment to Europe, a region that is at the core of our history of driving innovation in mobility.

Meeting new mobility needs requires both a great product and extensions beyond tires. It's about delivering innovative designs, technologies, materials and services that anticipate the complex demands of an evolving ecosystem.

The European automotive industry is one of the most innovative in the world and Europe is a breeding ground for the new ideas that are leading the fast-paced transformation of the mobility landscape.

Goodyear is highly invested in Europe, with a substantial number of associates and production facilities in 7 countries. With significant R&D capacity supported by our innovation center in Luxembourg, our presence in Europe lies at the heart of Goodyear's commitment to deliver innovative, superior mobility solutions that help change the world of transport and drive a sustainable future for the industry.

When Goodyear inaugurates our new Mercury facility in Luxembourg next year, we will be taking our latest step in developing advanced manufacturing in Europe.

As we look to the future, Europe will remain at the center of Goodyear's efforts to ideate, research, develop and produce smart, safe and sustainable mobility solutions.

New Mercury facility in Luxembourg

3

Europe's Periphery: Another Growth Engine for Multinationals

Europe's extended periphery represents one of the largest and most promising components of the global economy

A large and wealthy consumer base. A competitive marketplace. A large pool of skilled labor. Collaborative innovation networks. Business-friendly policies and institutions. These many key inputs continue to underpin the attractiveness of the EU to Corporate America.

And yet another important factor to add to the list of Europe's key attributes is its access to a large and expanding group of periphery nations, encompassing not only Central and Eastern Europe, but also the bordering regions of the Middle East and Africa.

Notwithstanding the rise in geopolitical risks in certain periphery countries—from the latest financial turbulence in Turkey, to unrest in the Middle East and Africa, to tensions with Russia and populist gains in some nations—the long term outlook for this region is positive. Rising incomes and a growing consumer class in Europe's periphery have created vast market opportunities for multinational companies located in Europe.

In addition, the majority of economies in Europe's periphery are becoming more integrated with Europe and the rest of the world, leading to a rise in trade and investment flows. As a result of this deeper integration, goods and services can flow more freely across borders, opening up additional markets, resources and profits for U.S. multinationals.

Think of it this way: while only two nations neighbor the U.S., the European Union is considered to have dozens of neighboring economies, spanning from Eastern Europe to the Middle East and Africa. By setting up operations in Europe, U.S. corporations can tap into this exceptionally diverse stream of revenue and investment income.

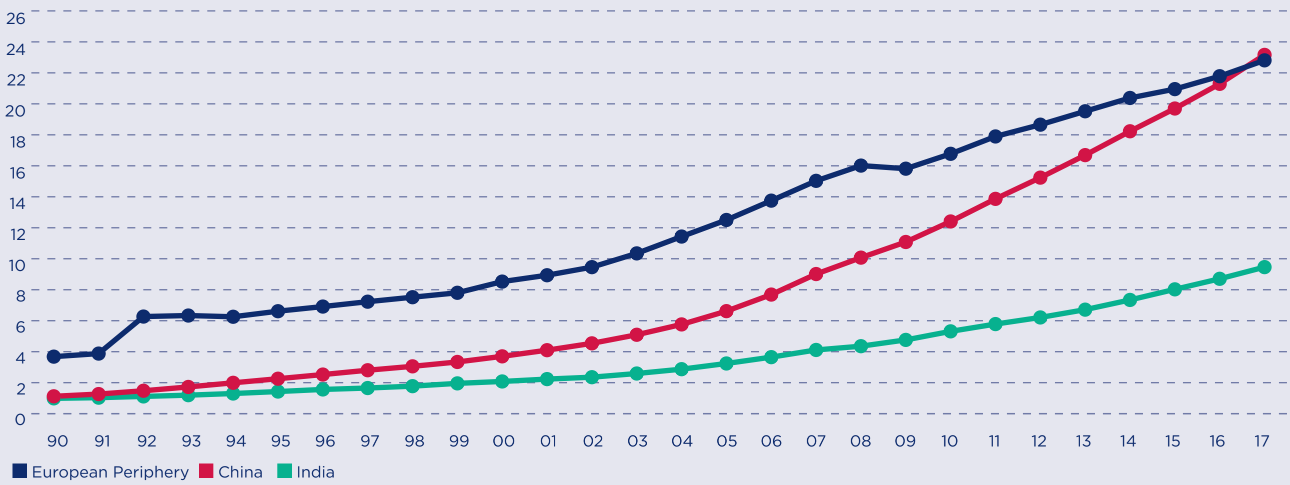
Finding trends amid the turbulence

The EU is an unusual blend of developed market economies (the EU15) and developing markets (the EU13), and when fused, the two halves offer some of the best commercial opportunities in the world. The EU13 members, for clarification, include many nations that joined the EU since 2004 via the EU enlargement process, with Croatia the latest entrant in 2013. That said, however, Europe's periphery extends well beyond Eastern and Central Europe. Europe's extended periphery—defined here as Central and Eastern Europe, including Russia; the Middle East; and Africa, notably North Africa—is unmatched on a global scale.

However, with greater market exposure comes additional risks U.S. affiliates must navigate. Among these risks are Russian sanctions, ongoing geopolitical tensions in the Middle East and North Africa, including renewed U.S. sanctions on Iran, as well as political instability in Africa. Financial pressures

3.1 Output of Europe's Periphery* vs. China/India

(Trillions of current international dollars, Based on purchasing-power-parity)



*Europe's Periphery: Developing Europe, Middle East and Africa. Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.

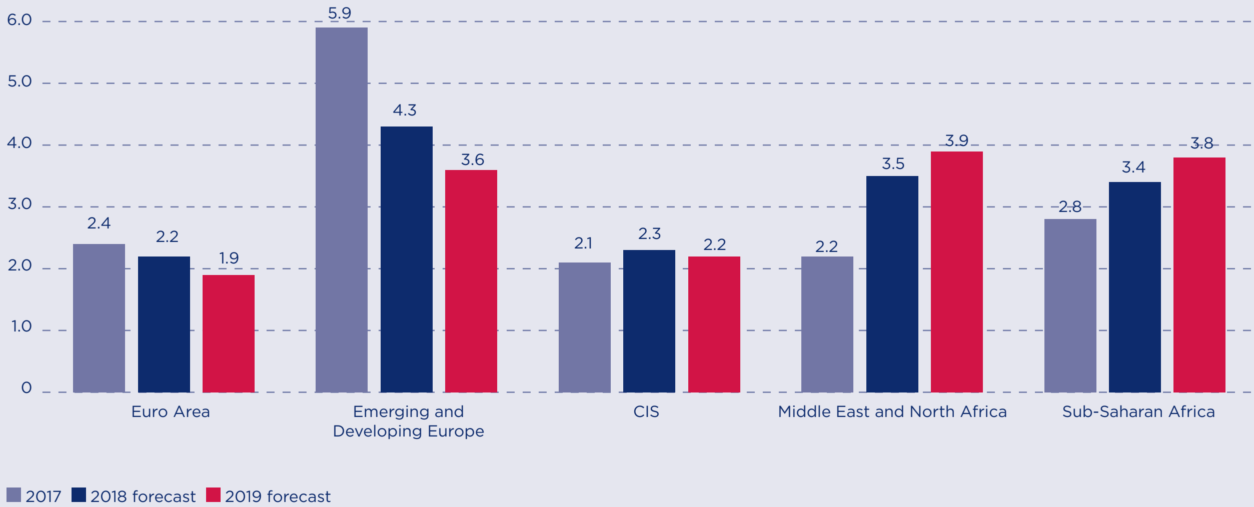
Source: International Monetary Fund.
Data as of April 2018.

in Turkey have also topped the list of key concerns for multinational companies with exposure to emerging markets.

Yet despite these geopolitical and economic risks, various structural trends in the region suggest a more positive outlook for multinational corporations invested in the region in the long term. Navigating inefficient institutions and unstable market conditions across the developing world has its many challenges, but investing in these markets also has its rewards.

3.2 Europe's Periphery to Lead the Way

Real GDP growth, %



CIS = Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldolva, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Emerging and Developing Europe = Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Macedonia, Montenegro, Poland, Romania, Serbia, and Turkey. Middle East and North Africa growth rate includes Pakistan and Afghanistan.

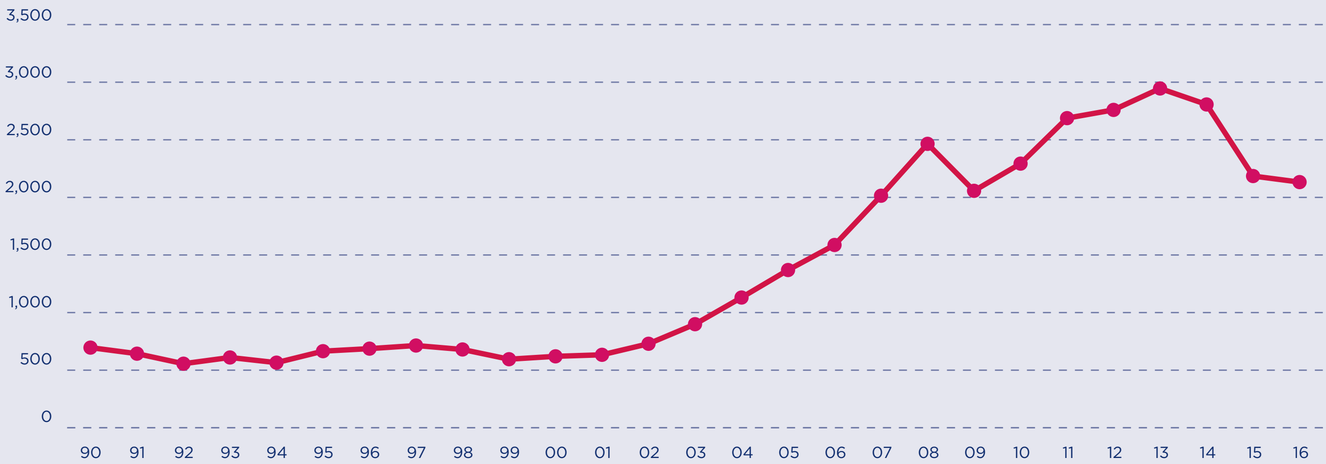
Source: International Monetary Fund.
Data as of July 2018.

First, Europe's extended periphery is massive in size and scale. Indeed, the total output of this geographic cohort, is roughly equivalent to China's total output, according to the latest annual figures (See *Exhibit 3.1*). In 2017, Europe's extended periphery produced $22.8 trillion in output versus China's $23.2 trillion (measured in purchasing-power parity dollars). Relative to India, well, it's not even close, with India's output just 41% of Europe's periphery in 2017. China and India are home to more people than the periphery but the population of the latter is a great deal wealthier in most cases.
Second, while growth in the Euro area is projected to slow in the coming years, many countries of the periphery are expected to see faster GDP growth this year and next. Indeed, while almost 60% of the periphery nations are forecast to have faster real GDP growth in 2019 versus 2018, all countries in the EU15 are expected to have real economic growth slow next year.

Looking from a more aggregated point of view, Eurozone GDP growth of 2.2% is forecast for 2018, underperforming expected growth in all regions along Europe's periphery (see *Exhibit 3.2*). Though growth in Emerging and Developing Europe is also projected to soften from the high levels of growth seen in 2017, the region is still set to outperform developed Europe. Bolstered by

In 2018, the outperformance in Europe's periphery will be even greater

3.3 Personal Consumption in Developing Europe*
(Billions of $)



*Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.

Source: United Nations.
Data as of January 2018.

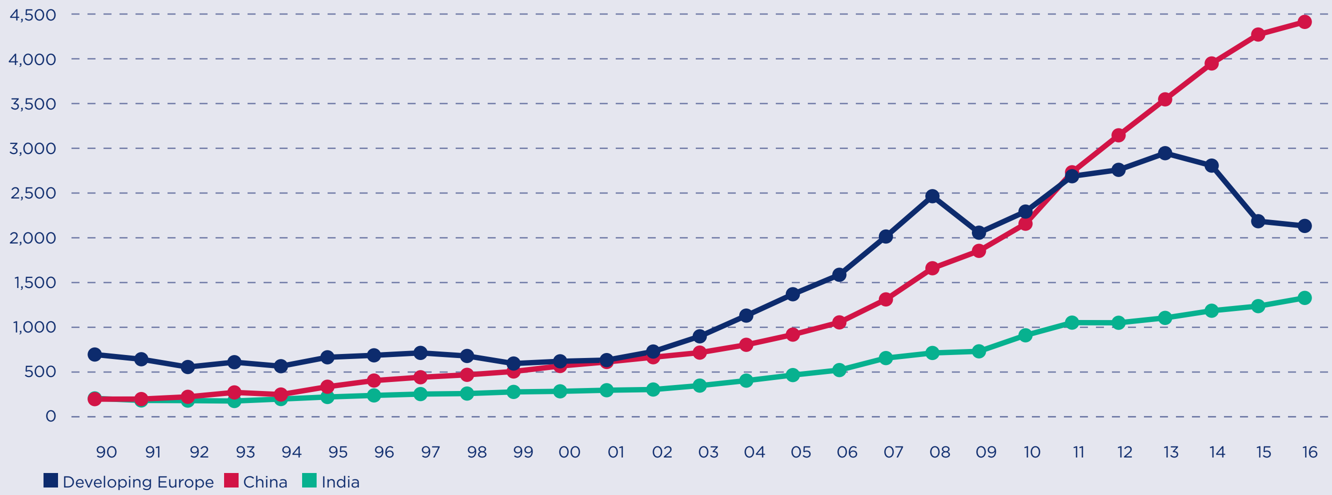
higher oil prices and stronger levels of domestic consumption, the CIS region should see a modest uptick in growth, according to the IMF data, as Russia and its surrounding countries (dependent on trade with Russia) continue to recover from recession. Meanwhile, forecasts for growth in the Middle East and North Africa and Sub-Saharan Africa show a notable recovery, with growth rates in both regions expected to roughly equal total world GDP growth of 3.9% in 2019.

Third, Europe's extended periphery is in the midst of a secular upswing in personal consumption, driven by multiple factors including rising incomes, a growing population, urbanization, a build out of infrastructure and the expanding role of women in the formal economy.

Indeed, reflecting many variables—greater employment, rising disposable income, and most of all, pent up demand for western goods after decades of denial—personal consumption in Central and Eastern Europe doubled between 1990 and 2005 and then doubled again by 2012, when expenditures totaled an impressive $2.8 trillion. That is not bad for a part of the world largely cut off from the global markets during the Cold War. In 2013, consumption hit a peak of $2.9 trillion before a sharp downturn in 2015 as recessionary forces mounted in Russia and parts of the Middle East (see *Exhibit 3.3*). In 2016, the latest year of available data, PCE was relatively stable at $2.1 trillion, though we expect this figure to rebound on account of an improving labor market and rising consumer confidence.

3.4 Personal Consumption in Developing Europe* Versus China/India

(Billions of U.S. $)



*Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.

Source: United Nations.
Data as of January 2018.

As shown in *Exhibit 3.4*, the consumer in developing Europe, while not as robust as consumers in China (spending $4.4 trillion in household expenditures), easily outspends consumers in India ($1.3 trillion).

In the end, consumption is serious business in developing Europe, with consumption accounting for 57% of GDP in 2016. That compares to a figure of 47% in the more trade-dependent developing economies of Asia and 39% in China.

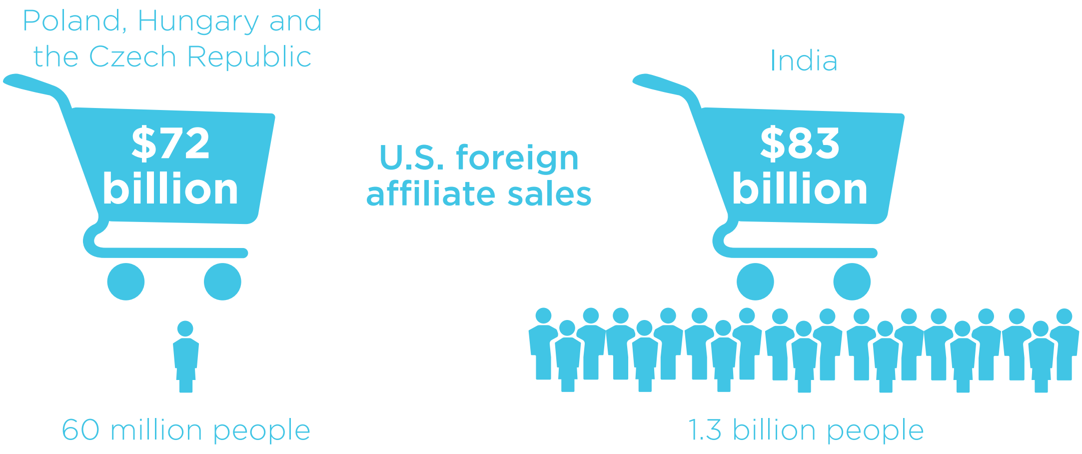
Rising levels of consumer spending, not surprisingly, have translated into stronger sales revenues for U.S. foreign affiliates. Combined U.S. foreign affiliate sales in Poland, Hungary and the Czech Republic surged between 2000 and 2016, rising from just under $21 billion to $72 billion.

As a comparison, in 2016 total U.S. affiliate sales were $83 billion in India, a country home to some 1.3 billion people versus a total population of roughly 60 million in Poland, the Czech Republic and Hungary.

Trade and investment linkages within Europe

Trade within Europe has rapidly advanced since the introduction of the Single Market in the early 1990s. Intra-EU exports of goods as a percentage of EU-wide GDP has risen from 14% in 1995 to 21% in 2015. Countries in Central and Eastern Europe have some of the highest percentage of intra-EU trade as a proportion of total trade in goods, notably Hungary (62%), Lithuania (64%), the Czech Republic (65%) and Slovakia (70%).

Strong sales revenues in Europe compared to other regions



And as Europe has become more interconnected, trade throughout the continent has emerged as a key source of profits for U.S. multinationals operating in Europe, not only through an extension of sales to foreign consumers, but through lower costs as a result of more efficient, cross-border supply chains.

Firms seeking low cost, high-skilled labor in the manufacturing industry have set up operations in Central and Eastern Europe, while still maintaining their geographic proximity to industrial production facilities in Western Europe. Affiliate employment in Central and Eastern Europe expanded at an average annual pace of about 7% from 1999 to 2016, versus a comparable 1% rate in Western Europe.

In fact, there are now more Polish manufacturing workers on the payrolls of U.S. foreign affiliates (roughly 127,900 workers) than manufacturing workers employed by affiliates in Spain (81,300), Ireland (50,700) or even Japan (85,900) for that matter. Overall, roughly 16% of Corporate America's European workforce is based in Central and Eastern Europe, up from less than 8% at the start of the century.

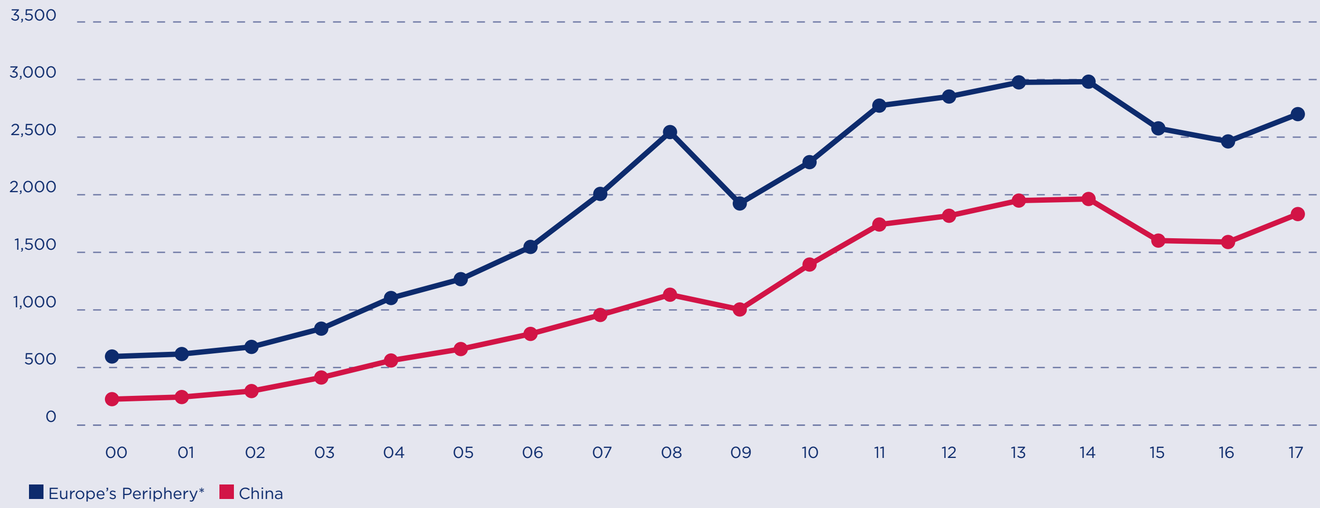
This growing presence of U.S. multinationals, in addition to Europe's cyclical upswing, has led to ultra-low levels of unemployment in many Central European countries compared to the broader EU aggregate. Poland, Hungary, and the Czech Republic all have unemployment rates below 4% versus EU aggregate unemployment of 6.8%, as of the latest data from Eurostat.

Trade and investment beyond EU borders

Looking beyond intra-EU trade and investment, U.S. affiliates have also used their presence in Europe to more efficiently serve the untapped and undeveloped markets surrounding the EU. In most cases, serving these distant markets from the U.S. is too costly; however, the costs and market opportunities vastly change when U.S. firms let their European affiliates take the lead. This strategy allows U.S. firms to be closer to their customers and competitors, lends itself to greater customization and localization by market, and promotes greater economies of scale, among other strategic advantages.

The EU is a springboard to the promising markets surrounding Europe

3.5 Total Imports of Europe's Periphery* vs. the Middle Kingdom
(Billions of $)



*Europe's Periphery: Developing Europe, Middle East, North Africa and Sub-Saharan Africa.

Source: International Monetary Fund.
Data as of July 2018.

After a slight drop in 2015 and 2016, total imports consumed by the extended periphery rose 10% to $2.7 trillion, which was larger than total imports of China and even that of the world's top importer of goods, the U.S. Over 50% of this increase in imports last year can be attributed to rising imports in four economies: Poland, Russia, the Czech Republic, and Turkey.

Any escalation of a global trade war and increased pressures on the Turkish economy could disrupt this positive momentum.

Import growth in Africa was also strong last year, with imports of goods rising 8% to $446 billion—a four-fold increase from the levels of 2000. Robust import growth in this region should continue over the long run as the population expands, incomes rise, and a more urbanized population demands more foreign goods. According to McKinsey, per capita consumption spending in large cities in Africa is on average 79% higher than at the national level.

Other parts of Europe's periphery are extremely wealthy—think of the Middle East and the elevated per capita incomes of Saudi Arabia, Kuwait, and the United Arab Emirates. These nations are under populated, although they punch above their weight when it comes to consuming Western goods and services. Imports consumed by the Middle East, including Israel, totaled $789 billion in 2017, representing an oil-fueled rise in import demand of over 300% since 2000.

And, when it comes to servicing these growing markets, the EU remains the top supplier to the new consuming masses in many peripheral countries. Geography, historical trading ties, modern day financial linkages, and EU policies that have created and expanded various trade and investment channels with its periphery have all contributed to the tremendous export capacity of the EU. The EU was the top exporter to the Middle East and North Africa (25% of the region's imports in 2017), Sub-Saharan Africa (24%), Russia (38%) and Turkey (36%). In contrast, the U.S. share of imports were considerably lower to Europe's periphery but the figures mask the fact that many U.S. multinationals rely on their European-based affiliates to penetrate these markets.

TESTIMONIAL

With large markets, entrepreneurial companies and a unique mix of skills and cultures, Europe is a key region for Dell EMC. Since Dell combined with EMC almost two years ago, we've committed to invest almost $1 billion incrementally in our people, our go-to-market and our technology, all of which will benefit our workforce and business in Europe. We believe that Europe represents huge opportunity for growth for Dell EMC and will continue to focus on it as a key market for us in the future.

With large markets, entrepreneurial companies and a unique mix of skills and cultures, Europe is a key region for Dell EMC.

AONGUS HEGARTY, PRESIDENT EMEA, DELL EMC

TESTIMONIAL

RUDOLF ERTL,
SENIOR VICE PRESIDENT,
COMMERCIAL OPERATIONS, EMEA,
GILEAD SCIENCES

Since its foundation 30 years ago, Gilead has relentlessly pursued its mission to address unmet medical needs for patients suffering from life-threatening diseases. As a leading biopharmaceutical innovator, Europe is a natural partner for us with its first class universities, skilled scientific workforce and advanced healthcare systems.

Our partnership with scientists at the Institute of Organic Chemistry in Prague and the Catholic University of Leuven in developing the drug Tenofovir has been pivotal in our research efforts against HIV and ultimately in helping to transform HIV from a fatal disease into a chronic, manageable condition. With around 30,000 new infections in EU & EEA countries each year, HIV remains a significant public health challenge in the region.

Currently our research activities in Europe include around 200 active clinical trials, meaning that European scientists, clinicians and patients are playing an extensive role in the development of some of the most promising new therapies for cancer, liver diseases and inflammatory conditions such as rheumatoid arthritis.

In recent years, $229m has been invested in our facilities in Ireland, including our manufacturing site in Cork which is responsible for a quarter of Gilead's total production of tablets.

Moving forward, our presence in Europe will strengthen with the establishment of a new cell therapy manufacturing site in Amsterdam. This state of the art 16,000 sqm facility will provide direct employment to 600-700 people by 2023 and enable the production of 8,000 individual cell therapies each year to treat European cancer patients.

With a shared ongoing commitment to scientific innovation and access to health for all, Gilead looks forward to a future in Europe.

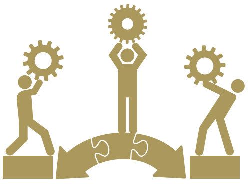
New cell therapy manufacturing site in Amsterdam

The bottom line

Europe's trade, financial and investment linkages with its neighboring countries and regions have deepened considerably since the start of the century to the benefit of many U.S. firms operating in Europe. As the countries bordering the EU continue to display strong growth this year and next, multinationals should see strong foreign profit growth. In addition, various long term secular trends such as urbanization, improving labor markets, the more prominent role of women, and rising per capita incomes have triggered another wave of global consumption right at Europe's door. Granted, Europe's extended periphery contains many risks, frequently cited and rehearsed in the media, which can lead to a more uncertain and volatile business climate. However, by using Europe as a gateway to the developing markets, American firms can access a diverse and growing consumer base, while limiting the risks of being directly invested in these volatile regions.

4

Carrying on: The European Union without the United Kingdom



For decades, the UK has served as a strategic gateway or bridge to the EU for U.S. firms

The UK's exit from the EU is a divorce for the ages. Never before has a nation bid farewell to the world's largest and wealthiest economic bloc. But with the blessing of both the Parliament and the Queen, the UK government is in negotiation with the EU to officially exit from the Union. Divorce date: March 29, 2019.

What type of successor legal framework emerges from the negotiations remains open, which, not surprisingly, has created a tidal wave of speculation over a 'hard' or 'soft' Brexit. The former entails tough new rules of engagement for the UK and EU, and plenty of lingering acrimony. A 'soft' exit would be more amicable. Potentially it would lead down a path whereby the UK could maintain a 'deep and special' relationship with Member States, and sustain trade and investment ties.

The devil, however, will be in the details. Market access, regulatory cooperation, state procurement, labor and environmental standards, data protection and privacy—not until all of these factors are ironed out and agreed upon will companies get a clearer picture of the UK-EU business landscape. There is also the politically charged issue of the Irish border, which is linked to the type of customs and trade arrangements that the UK and the EU need to agree on. The potential for a cliff-edge scenario, in which the UK crashes out of the EU without a deal before the March 2019 deadline, remains an uncomfortable possibility while these issues are unresolved. Such an outcome could have profound economic consequences, at least in the short term.

Meanwhile, Brexit, to say the least, has made life more complicated for U.S. multinationals. Indeed, in the crosshairs of this untidy situation are numerous American firms that have long leveraged the UK's market access to the EU. Below we outline the multiple ties that bind the U.S. and UK together, and the deep-rooted linkages of the U.S., UK and EU.

The stakes for U.S. multinationals

Britain's departure from the EU puts at risk Corporate America's massive FDI stakes in the UK. This corporate presence has long been premised in large part on the territory's membership into the largest, wealthiest and most important foreign market in the world to U.S. companies: the EU.

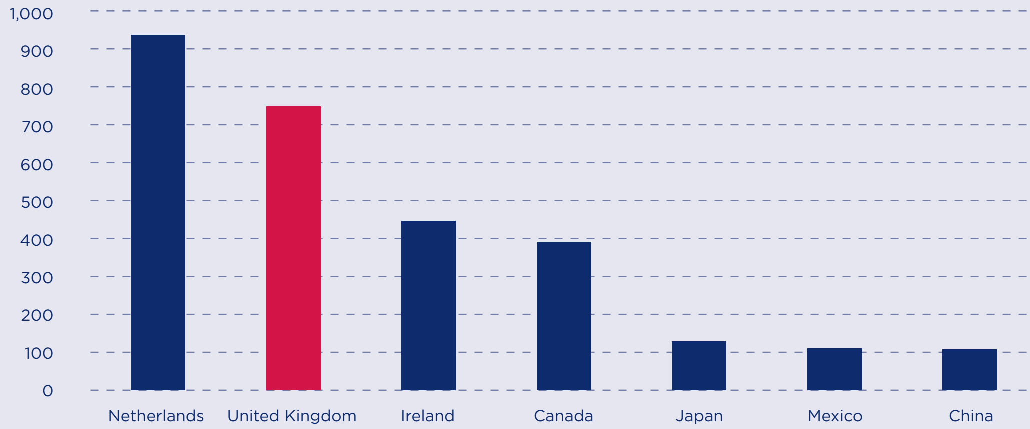
For decades, the UK has served as a strategic gateway or bridge to the EU for U.S. firms, with American companies very much at home in a country that boasts a large and affluent market, a shared language, and a similar business and legal architecture to the U.S. In addition, as one of the standard-bearers of the Anglo-Saxon model of capitalism, the market interests of the UK and U.S. have long been aligned, making the UK a favored destination for American firms.

Geography has also certainly helped matters. Perched at the rim of continental Europe, the UK offers easy access to Europe at large, and has long served as a jumping-off point for U.S. firms desiring deeper access to the various markets of the EU.

In short, leveraging the UK's access to the EU has been a profit-generating strategy for U.S. multinationals for decades. But this strategy is now at risk as the UK crafts a future outside the EU.

America's capital stock in the UK is more than double the combined U.S. investment in South America, the Middle East and Africa

4.1 Total U.S. Outward FDI Position
(Billions of $, 2017)



Source: Bureau of Economic Analysis.
Data as of August 2018.

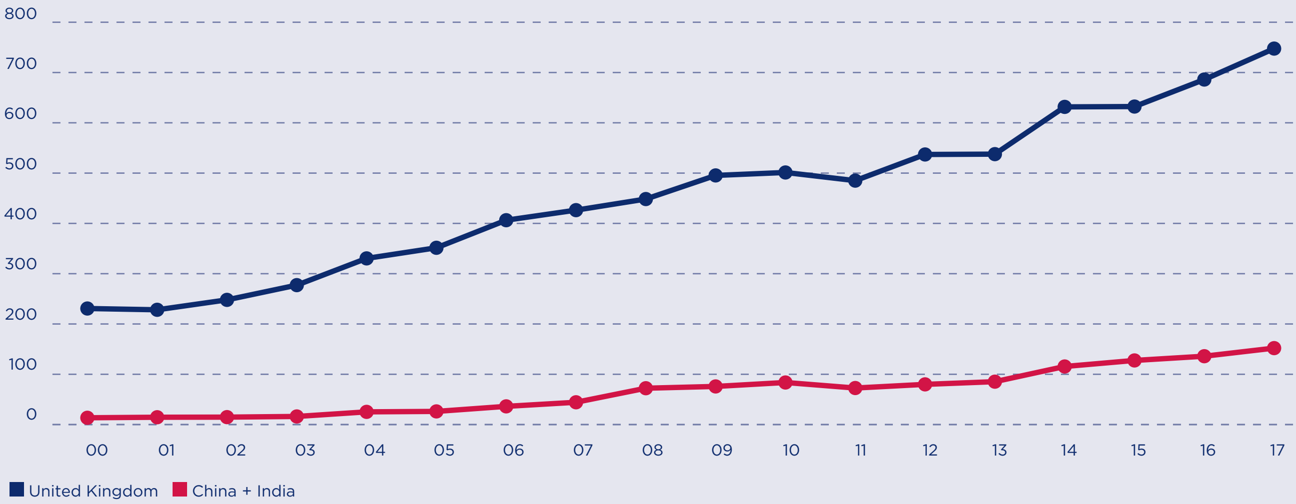
America's corporate presence in the UK is rather significant on both an absolute and relative basis. Indeed, after the Netherlands, America's corporate stakes in the UK are among the deepest in the world. Totaling $748 billion in 2017, America's capital stock in the UK is almost triple the combined U.S. investment in South America, the Middle East and Africa.

And even in Asia's rapidly growing emerging markets of China and India, the stakes of foreign investment do not even compare. Wealthy consumers, respect for the rule of law, the ease of doing business, credible institutions, membership to the EU—all of these factors, and more, have long made the UK a more attractive place to do business for American firms than either China or India. Combined U.S. investment in China and India represents just 20% of the total U.S. investment in the UK. This long-established, unwavering preference for the UK by U.S. multinationals reflects the deep historical roots of the UK-U.S. relationship.

Whatever the metric—total assets, R&D expenditures, foreign affiliate sales and even affiliate employment—the UK is a key pillar of America's global economic infrastructure and a key hub for the global competitiveness of U.S. firms. The UK ranks number one in the world in terms of U.S. foreign affiliate value added (or output). The output of U.S. affiliates in the UK totaled $166 billion in 2016, about the same as the entire GDP of Hungary or Qatar, and more than two and a half times the output of U.S. affiliates in China.

The bulk of U.S. foreign affiliate sales in the UK are for the local market, but the export-propensity of U.S. affiliates in the UK is hardly inconsequential. Indeed, while outranked by nearby

4.2 America's Preference for the UK vs. China and India
(U.S. Direct Investment Position*, Billions of $)



*U.S. foreign direct investment stock on a historical cost basis.

Source: Bureau of Economic Analysis.
Data as of August 2018.

Ireland, U.S. affiliate exports from the UK still totaled over $170 billion in 2016, the last year of available data. That figure is more than double U.S. affiliate exports from Mexico and over three times greater than U.S. affiliate exports from China—two lower-cost nations more closely associated with U.S. affiliate exports.

On a standalone basis, what U.S. affiliates export from the UK each year is greater than the total exports of most nations. Such is the export intensity of U.S. affiliates in the UK; how U.S. firms leverage the UK's access to the EU is best seen through trade flows.

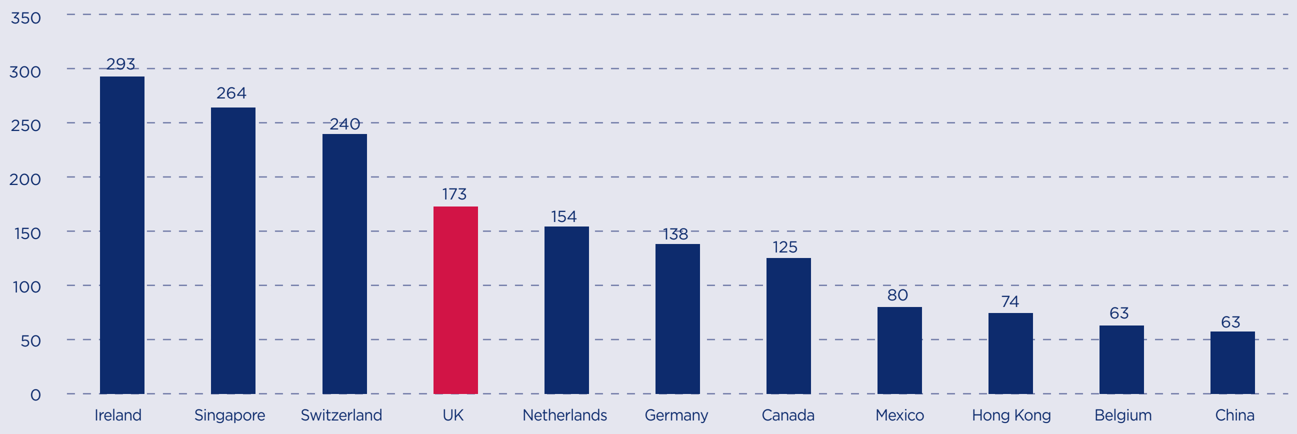
The final exhibit reveals just how important the UK is to the bottom line of Corporate America. Since 2000, the UK has accounted for 9% of cumulative global foreign affiliate income, a proxy for global earnings. Only the Netherlands and Ireland rank higher. Against this backdrop, given the prominence of the UK in driving U.S. global profits, 'Brexit' and the severing of UK-EU ties carry significant risks to the bottom line of Corporate

4.3 Operations of U.S. Foreign Affiliates in the UK*

	Billions of $	% of Global Total	Rank
Total Assets	5,096	20.2%	1
Value Added (Output of Affiliates)	166	12.8%	1
R&D	6	11.1%	2
Capital Expenditures	19	9.6%	2
Foreign Affiliate Sales	607	10.5%	1
Employment (thousands of employees)	1,473	10.3%	2
Manufacturing (thousands of employees)	311	5.7%	4

*Data for Majority-Owned Foreign Affiliates, 2016.
Source: Bureau of Economic Analysis.
Data as of August 2018.

4.4 Corporate America's Favorite Export Platforms*
(Billions of $, 2016)



*Exports of U.S. Foreign Affiliates = U.S. foreign affiliate goods and services supplied to U.S. and third party countries.

Source: Bureau of Economic Analysis.
Data as of August 2018.

4.5 Top Foreign Markets for U.S. Foreign Affiliate Income

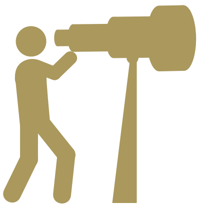
Rank	Country	2000-1Q2018 ($ Billions)	% of World Total*
1	Netherlands	905.2	17.1%
2	Ireland	503.8	9.5%
3	United Kingdom	477.1	9.0%
4	Canada	424.1	8.0%
5	Luxembourg	396.2	7.5%
6	Switzerland	331.0	6.2%
7	Singapore	301.2	5.7%
8	Japan	170.7	3.2%
9	Mexico	148.1	2.8%
10	Australia	133.3	2.5%

*Excluding Caribbean and Other Western Hemisphere.
Source: Bureau of Economic Analysis.
Data as of August 2018.

America. Brexit may squeeze the affiliate earnings of numerous U.S. multinationals strategically ensconced in the UK, and force many companies to rethink their overall EU strategies.

The effects on the EU—Potentially significant, ultimately manageable

Brexit will be disruptive to U.S. commercial operations in the UK and the EU. The impending divorce is already creating a wave of uncertainty. It threatens significant upheaval, if the two parties do not manage this crucial process well in the coming months and years. In the long run, however, the fall out is likely to be manageable. In general, the direct impact from the UK exit on the EU is likely to be far less severe than the impact on the UK itself. Goods exports to the UK account for just 2.5% of EU GDP, as compared to 8.0% of UK GDP for exports going to the EU, according to data from the IMF. The longer-run effects on the mainland will depend on the outcome of negotiations with the UK, and whether remaining member states can draw closer together. The latter is our base



For the first time in over a decade, the odds of real reform in the EU have risen

The EU and U.S. multinationals will carry on—and continue to do business through deeper trade and investment linkages

case—that the shock of Brexit becomes a catalyst for greater pan-European integration and cooperation, not less.

Brexit has become a rallying cry and a focal point for greater and faster integration, with the reemergence and return of the Franco-German alliance a decisive factor that should propel the continent towards more cohesion. Yes, progress will be slow. But for the first time in over a decade, the odds of real reform in the EU have risen. A Euro area finance minister; a European Monetary Fund; and a Euro area budget—all three structural underpins are on the table and could become a reality in the next few years. Meanwhile, even with the exclusion of the UK from the EU, the latter will remain among the largest and wealthiest economic entities in the world. No serious U.S. multinational can be absent from this market.

This scenario relies on the EU and the UK effectively managing the terms of the withdrawal and those of the future relationship. An orderly exit—ideally with a transitional arrangement in place from the day of Brexit for an unspecified period until the terms of the new relationship are defined—would provide U.S. and international businesses with the confidence to continue to invest and trade across the Channel. A cliff-edge scenario could potentially have a devastating impact on both economies. Trade and investment ties between the EU and the UK would overnight lose the benefits of tariff-free trade and seamless movement of goods and services. U.S. companies would be particularly at risk as they invest heavily in the UK with a view to exporting to the rest of Europe. Managing this process effectively is therefore essential—and not least for the credibility of both the EU and the UK going forward.

In terms of what countries will be affected the most by Brexit, individual member states with the closest trade ties to the UK are likely to suffer the most in the near term given the weakness of the pound, lower domestic demand within the UK and the prospect of higher tariff barriers (at least until new trade agreements can be negotiated). Ireland, the Netherlands and Belgium in particular stand out, with merchandise export shares of GDP to the UK of more than twice the EU average at 5.5%, 6.9% and 7.3%, respectively. However, as at the broader EU level, the longer-run country implications are likely to depend on changes in capital and trade flows that result from the UK's new status. Should London cede its position as the principal location for European headquarters among global financial firms and other multinationals, many business leaders have pointed to Frankfurt, Paris and Dublin as potential alternatives.

Beyond the EU itself, we expect the UK exit vote to have a limited direct economic impact on the rest of the world. The UK accounts for just 3.3% of global GDP, and for many of the large non-EU economies (including the U.S., China, India, Russia and Japan), export exposure to the UK accounts for less than 1% of total output, as measured by the IMF's merchandise trade statistics.

The bottom line—the decision of the UK to leave the EU was just as unexpected as shocking. The economic ripples will be felt for years. As the date for Brexit approaches, expect more volatility in the financial markets and more negative headlines. However, the EU and U.S. multinationals will carry on—and continue to do business through deeper trade and investment linkages.

5

The Way Forward: A Testing Time for the Transatlantic Partnership

The transatlantic partnership is too big to fail

The world economy is in the midst of profound structural change owing principally to the inward and protectionist shift of the U.S. and the stunning ascent of China and India, two nations that long dominated the global economy before the rise of the West beginning in the early part of the 19th century. The proliferation of disruptive technologies and the rise of non-state actors have converged in the past few years to challenge the post-war global economy and its principal architects—the United States and Europe.

Yet notwithstanding the incessant swirl of change, one strand of continuity remains: the deep integration of the U.S. and Europe, with each party drawing strength and stability from each other. As noted in Chapter One, bend not break is the best description of the transatlantic partnership. Notwithstanding all the negative headlines about U.S.-EU trade tensions, some progress has been forthcoming in opening and integrating the transatlantic economy via trade negotiations. Sticking points remain (aka, autos) but both parties remain committed to making the partnership stronger, not weaker.

Today, the transatlantic economy remains the bedrock of the global economy. Yes, the economic progress of China, India and others has been impressive over the past decade, but the success of each party is due in part to the global economic architect/framework created, supported and funded by the U.S. and Europe. From this lens, it is clear, and there is no doubt, that the U.S.-EU economic alliance remains critical to the long-term health of the global economy. Simply put: the transatlantic partnership is too big to fail.

Europe is a continent of economic success

The case for investing in Europe rests squarely on the fact that Europe is a continent of economic success. Despite post-Brexit angst, Europe's cyclical expansion continues, and should remain intact into 2019. As output expands, so has Europe's size and wealth, already among the largest in the world. Add in Europe's depth in human capital, respect for the rule of law, overarching competitiveness and ease of doing business, and what U.S. firm can afford to be missing from Europe? The market is too great, too important to the bottom line of many firms.

The previous chapters have highlighted what's right with Europe amid lingering structural challenges. Yes, the continent faces formidable hurdles in the months and years ahead. Putin's Russia, instability in the Middle East and North Africa, rising populist parties, structural unemployment, and the creation of a Digital Single Market are considerable challenges. But that said, outside of the UK, the path forward is of further integration. With Germany and France in the lead, policy makers are pushing for more Europe, not less, a bullish prospect for Corporate America.

Predicting the demise of the Union is always of ease and fashionable. But this report serves as a critical and timely reminder that, notwithstanding stress points, Europe still remains among the most attractive long-term places in the world for business.

The case for Europe rests on many building blocks. First, thanks to more proactive and pro-growth policies from the ECB, Europe's economic expansion continues. Real GDP growth in 2017 was the strongest in years, with

What U.S. firm can afford to be missing from Europe?

The U.S. and Europe will remain each other's most important trade and investing partners

solid economic growth expected in 2018 and 2019 as well. Second, long-term structural reforms continue, with Europe's challenging economic climate and the shock of Brexit twin catalysts for change. Think public sector reform, pension reform, labor market reform and other measures. Third, the institutional framework of the EU and Eurozone has become stronger and more effective over the past year, with the German-French pledge to deepen the EU framework a positive for U.S. corporate interests. Finally, on a relative basis, Europe remains home to a deep and talented pool of human capital that is badly needed by American companies.

Looking ahead, the U.S. and Europe will remain each other's most important trade and investing partners. This—despite the tenuous trade tone between the U.S. and Europe. There really is not an alternative and no bloc or country, save protectionist China, compares to the size of the transatlantic alliance. U.S. firms that require global scope, external resources and growth markets outside the U.S. can ill afford to ignore or pass on Europe's wealthy consumer base, skilled labor pool, rule of law, ease of doing business, technology skills, and proximity to many dynamic emerging markets.

Meanwhile, at a time when America's labor force is aging and shrinking (the U.S. unemployment rate is at a multi-decade low), American firms need even greater access to Europe's labor market. American firms are presently confronted with a skilled labor shortage, alleviated, to a degree, by access to Europe's skilled labor pool. By the same token, at a time when R&D has gone global and has become highly dispersed, U.S. innovative leaders are increasingly looking to Europe as a partner or collaborator for new technology and innovation, as well as a critical source of R&D funding. Also, with trade and investment protectionism gaining traction in China and other emerging markets, Corporate America's access to the European market is even more important today. And speaking of emerging markets, Europe's periphery, despite near-term cyclical weakness and political instability, remains one of the most promising components of the global economy, with U.S. firms 'inside' Europe well positioned to leverage Europe as a springboard to these promising markets.

All of the above, and the various chapters in this report, underscore the continued and long-term importance of Europe to the bottom line of Corporate America. The region's underlying strengths and attributes remains solid.

Hence, the case for investing in Europe—and the justification for U.S. companies staying the course—has never been stronger.


Strongest real GDP growth in years
Deep pool of human talent
The case for investing in Europe has never been stronger
Ongoing structural reforms
Stronger institutional framework

About the Author

Joseph Quinlan is a leading expert on the transatlantic economy and a well-known economist/strategist on Wall Street. He specializes in global capital flows, foreign direct investment, international trade, and multinational strategies.

Mr. Quinlan lectures on finance and global economics at Fordham University. In 1998, he was nominated as an Eisenhower Fellow. Presently, he is a Senior Fellow at the Center for Transatlantic Relations, and has served as a Fellow at the German Marshall Fund. He was appointed a Bosch Fellow at the Transatlantic Academy in 2011.

In 2006, the American Chamber of Commerce to the European Union awarded Mr. Quinlan the 2006 Transatlantic Business Award for his research on U.S.-Europe economic ties. In 2007, he was a recipient of the European-American Business Council Leadership award for his research on the transatlantic partnership and global economy.

Mr. Quinlan regularly debriefs policy makers and legislators on Capitol Hill on global trade and economic issues. He has testified before the European Parliament. He has served as a consultant to the U.S. Department of State. He is also a board member of Fordham University's Graduate School of Arts and Science and serves on Fordham University's President Council.

He is the author, co-author, or contributor to over twenty books. His most recent book, 'The Last Economic Superpower: The Retreat of Globalization, the End of American Dominance, and What We Can Do About It' was released by McGraw Hill in November 2010. He has published more than 125 articles on economics, trade and finance that have appeared in such venues as Foreign Affairs, the Financial Times, The Wall Street Journal and Barron's. He regularly appears on CNBC, as well as Bloomberg television, PBS and other media venues.

About AmCham EU

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €2 trillion in 2017, directly supports more than 4.7 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

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