


Staying the Course: The Case for Investing in Europe

Joseph P. Quinlan



AmCham EU

SPEAKING FOR AMERICAN BUSINESS IN EUROPE

Staying the Course:
The Case for Investing in Europe

In a world of perpetual change, one truss 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. I would also like to recognize the assistance and contribution of Kathryn Cassavell. 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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Europe is rallying. The economic climate is improving in the region with most indicators turning green—growth, employment, reforms, consumer and business confidence. This fantastic window of opportunity for Europe is the positive story of this year's report.

But there is more. The current environment rests on robust foundations. One of them is the longstanding relationship between Europe and the United States. Joseph Quinlan describes it as the 'one strand of continuity' in the global economy. It builds on decades of dialogue and an unwavering commitment to shared values. At turbulent times, our joint prosperity relies on this vibrant transatlantic partnership.

In the report, Joseph Quinlan lays out—more clearly than ever—why Europe and the United States are stronger together and 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. FDI 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.

We also stand at a critical point in time for the European Union. 2017 marked the 60th anniversary of the Treaty of Rome, which paved the way for European integration. Turning a continent of war into a union of peace is without doubt one of the greatest achievements of the last century. European citizens have benefited greatly from the political stability and economic prosperity the EU has brought. The Union has also created one of the world's largest and most attractive markets—a critical component of the case for investing in Europe. Support for a pro-EU agenda will require continued political leadership.

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 in the region, they demonstrate the breadth of their operations in Europe and their positive impact on local communities.

Today the case for investing in Europe is stronger than ever.

Invested in Europe: Our Stories

American companies have deep and longstanding ties in Europe. In 2016, U.S. investment totalled more than €2 trillion and directly supported more than 4.5 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 Munich.

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 Europe and the United States, with each party drawing strength and stability from each other. Today, the transatlantic economy remains the bedrock of the global economy.

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.

Whether it's trade in goods or services; whether the activity is expanding R&D in France; 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

Almost 25% of world output

2 Highly skilled and productive workforce

Leader in science and engineering talent

3 500 million consumers and rising incomes

22% of global personal expenditures in the EU (2015)

4 Economy on the upswing

Strongest GDP growth in years and dropping unemployment

5 Innovation and world-class R&D infrastructure

21.2% of global R&D spending in Europe (2016)

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 for 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: 16 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

There is plenty right with Europe—one of the largest and wealthiest economic entities in the world. Since our last publication, the weak link of the global economy has become one of the healthiest, with the European Union (EU) presently in the midst of one of the strongest economic expansions in over a decade.

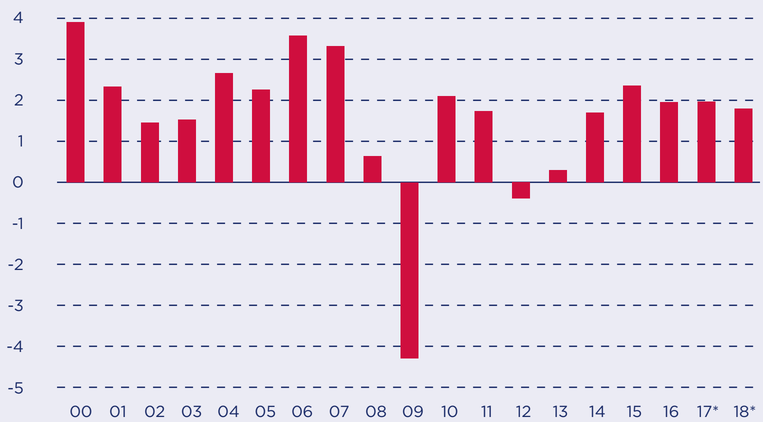
What's more, the nascent populist tide across Europe has receded—at least for now. After the Brexit vote and the equally stunning election victory of Donald Trump, the general fear was that anti-euro, isolationist candidates would gain power in the Netherlands, France and even Germany as each nation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

The worst, however, has not come to pass. Across Europe, more pro-euro candidates have moved to the fore. As the economic picture in Europe has improved over the past year, the appeal and approval of populist candidates have waned. True, while there remains a strong undercurrent of political populism in both the U.S. and Europe, the tide has turned towards more market-friendly, pro-euro candidates in Europe.

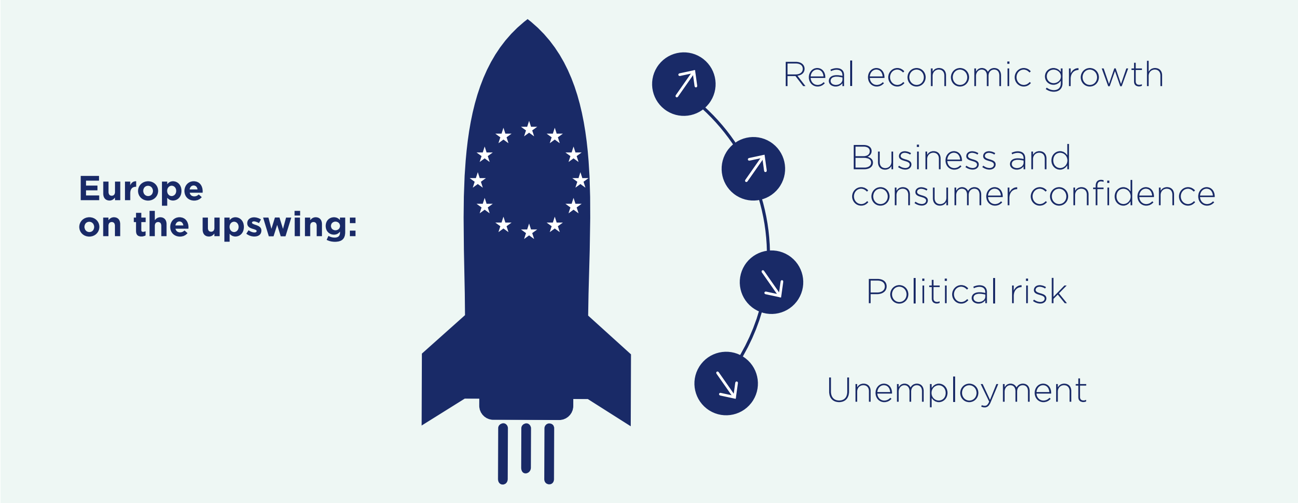
The gloom of the past few years has given way to more confidence and comfort about the future. Real economic growth is accelerating across the Continent; unemployment levels are declining, even among Europe's youth; business and consumer confidence is on the rise; and political risk has subsided. According to estimates from the International Monetary Fund (IMF), the EU is expected to expand by 2% this year *(Exhibit 1.1)*. And the cyclical upswing is expected to continue in 2018, with real gross domestic product (GDP) growth of 1.8% projected.

Against this backdrop, 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.

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



*2017-2018 forecast.
Data as of April 2017.
Source: International Monetary Fund.



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; with the aid and assist 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. As the Norwegian Nobel Committee noted upon awarding the 2012 Nobel Peace Prize to the EU:

'The stabilizing part played by the EU has helped transform most of Europe from a continent of war to a continent of peace.' And a primary beneficiary of this dynamic has been Europe's long-time strategic partner—the United States.

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 23.2% of world output in 2016 according to estimates from the IMF. That was slightly less than America's share (24.7%), but well in excess of China's 15% and India's 3%. Based on purchasing power parity figures, which adjusts to local factors, the EU's share of 17.4% was greater than that of the U.S. (15.5%) in 2016 but slightly behind China's (17.8%) in 2016.

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 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 15.1% minus the UK.

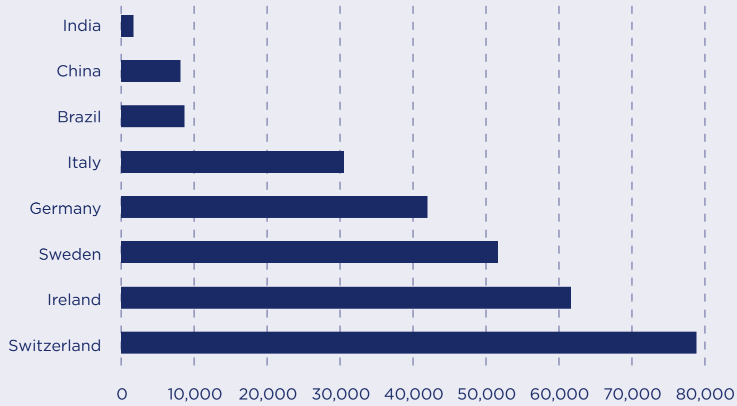
With the aid and assist of the United States, Europe has emerged from the ashes of war to become one of the largest and wealthiest economic blocs in the world

As an aside, the transatlantic economy (or the combined GDP of the U.S. and the EU) totalled roughly 33% in 2016, well above the combined output of China and India—25%.

Third, Europe is not only large but also wealthy, and wealth matters. Wealth is correlated 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, fifteen of the twenty-five wealthiest nations in the world are European. Per capita GDP levels in Europe are light years ahead of those in India and China, and all of Africa *(Exhibit 1.2)*.

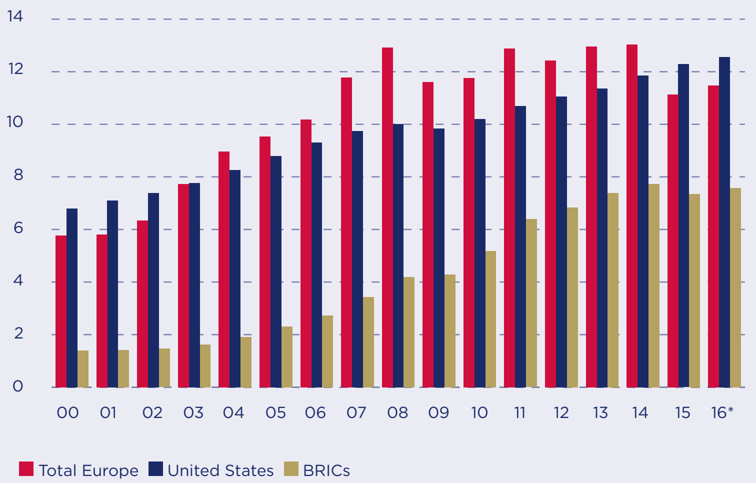
Fourth, wealth drives consumption, with the EU accounting for nearly 22% of global personal consumption expenditures in 2015, a slightly lower share than that of the U.S. but well above that of China (roughly 10%) and India (less than 3%) and the BRICs combined (roughly 17%). Since 2000, personal consumption expenditures in Europe have almost 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.

1.2 The Wealth of Nations (GDP per capita, $)



Source: World Bank.
Data for 2016.

1.3 The Spending Power of the European Consumer
(Household consumption expenditures, Trillions of current U.S. dollars)



*Forecast
Europe = EU28 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Iceland, Macedonia, Moldova, Montenegro, Norway, Russia, Serbia, Switzerland, Turkey, and Ukraine.
Source: United Nations.

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

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 2017.

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 Innovation Union Scoreboard for 2017, Denmark, Finland, Germany the Netherlands, Sweden, Switzerland, and the UK rank as innovation leaders in Europe. In the aggregate, Europe-based companies accounted for roughly 21.2% of total global R&D in 2016. That lagged the share of the U.S. (25.6% in 2016) but was ahead of the global share of R&D spending in Japan (8.6%), China (20.1%), and India (3.6%). The region remains a leader 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, notably Brazil and China, has slowed dramatically over the past year; the high flyers are now low flyers, with two of the fabled BRICs (Brazil and Russia) slowly emerging from recession.

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 European countries rank as the most attractive in the world.

According to the World Bank's 2017 *Ease of Doing Business* survey, sixteen European economies ranked in the top twenty-five most business-friendly nations *(Exhibit 1.5)*. Denmark ranked third overall, followed by Norway (6th), the United Kingdom (7th), Sweden (9th), Macedonia (10th), Estonia (12th), Finland (13th), Latvia (14th), Georgia (16th), Germany (17th), Ireland (18th),

1.5 Ease of Doing Business 2017 Global Rankings: The Top 25

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

Source: World Bank, Ease of Doing Business Report 2017. Data as of October 2016.

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

Austria (19th), Iceland (20th), Lithuania (21st), Poland (24th), and Portugal (25th).

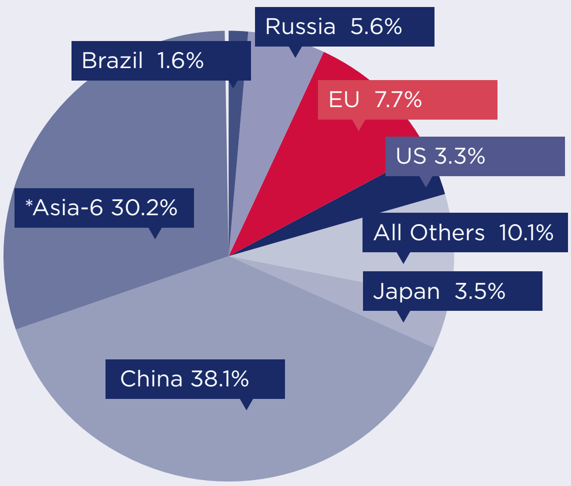
Outliers include Russia, ranked 40th, Croatia, ranked 43rd, along with Italy (50th), and Greece (61st). Reflecting the challenging business environment of many key emerging markets, China ranked 78th in terms of ease of doing business in 2017, while India ranked 130th. Brazil clocked in at 123rd.

Finally, in that innovation requires talent, Europe is a global leader in producing science and engineering talent, with the EU accounting for 7.7% of global engineering graduates in 2012, according to the latest data from the National Science Foundation *(Exhibit 1.6)*. America's share was just 3.3% of the global total, less than half of Europe's. 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.

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.

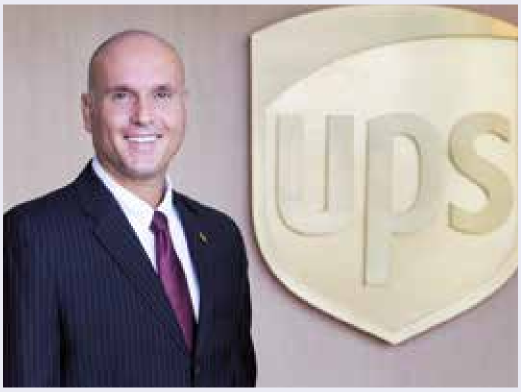
Yes, the region has plenty of problems and challenges before it—all well documented. Less appreciated, however, are Europe's many strengths and copious attributes that, among other things, have been hugely beneficial to U.S. multinationals. Remember: nearly 60% of U.S. global foreign affiliate income (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.

1.6 Number of First University Degrees (Engineering)
(% of global total)



*Asia-6: India, Indonesia, Malaysia, Singapore, South Korea, Taiwan. China data include computer sciences under engineering. Data for 2012, or most recent year.
Source: National Science Foundation: Science and Engineering Indicators, 2016.

TESTIMONIAL



NANDO CESARONE, PRESIDENT, UPS EUROPE

UPS has been investing, doing business and growing in Europe for more than 40 years. West Germany was the very first market outside of North America in which we set up our operations, starting there in 1976 with a little over 200 employees, 120 delivery vehicles and 60 customers. And, we haven't looked back.

Across Europe today, UPS employs more than 45,000 people and delivers to every address in every country of the region. Today, Europe accounts for approximately half of our international revenue and is one of the primary drivers of our growth.

From the get-go, we saw the opportunities Europe would bring to businesses and consumers, especially with the establishment and subsequent widening and deepening of the EU Single Market, the world's largest single market with transparent rules and regulations. This framework, coupled with an innovative and well-educated workforce who develop and manufacture the highest quality products sought after all over the world, has created an ideal environment for both buyers and sellers.

We're happy to have been able to play an active and expanding role in helping our customers – regardless of their size or industry sector – reliably connect to a world of opportunity through the strength and integrity of our trusted and comprehensive European transportation network.
And, we continue to be bullish on Europe, its economy and our prospects here.

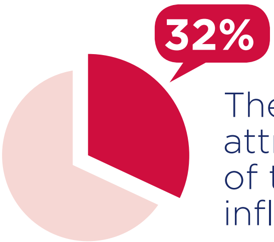
To demonstrate this, starting in 2015, we embarked on a $2 billion, five-year investment program into our European network and infrastructure, of which we've so far completed over one third.
The investments include a redesign of our ground and air network to speed up transit times and the building of new facilities or expansion of existing ones to increase capacity.

So, there's plenty more to come and, really, our European journey has only just begun.

45,000
employees across Europe

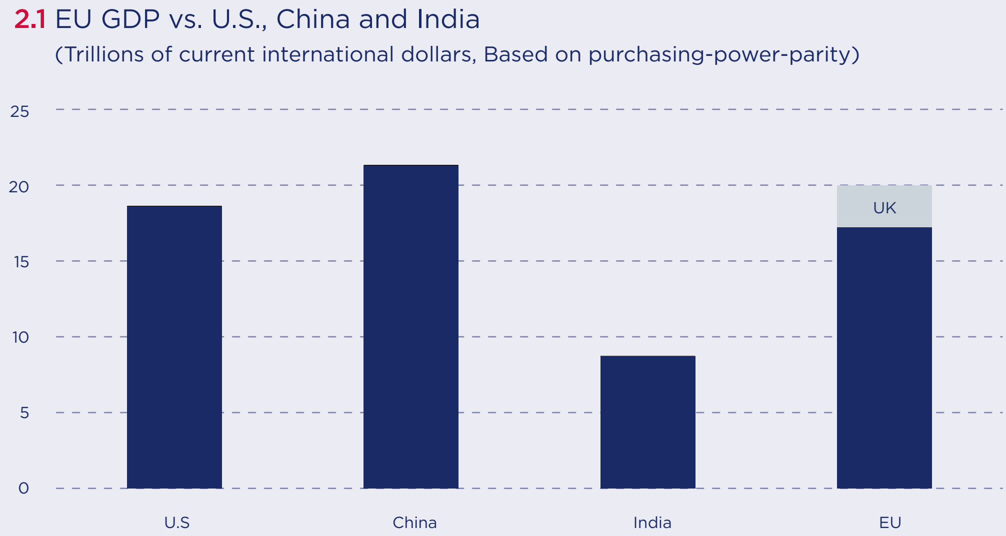
2

Why Europe Still Matters



The EU attracted 32% of total FDI inflows in 2016

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



Source: International Monetary Fund.
Data for the year 2016. Data as of April 2017.

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 recipient of global foreign direct investment (FDI). To this point, the EU attracted about 32% of total FDI inflows in 2016, according to data from the United Nations (UN), outpacing North America (24%) and Asia (26%). According to the UN's World Investment Report, Germany, the UK, the Netherlands, France, Spain, Ireland, and Italy ranked as among the most attractive locations for foreign direct investment. As for Brexit—or the planned departure of the UK from the EU—no discernible negative effects were in the data in 2016, although in the out years, we do expect a modest re-ordering of FDI, with more FDI inflows to the Continent versus the UK.

Economic growth in Europe is on the rebound

4.5 million workers

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

Europe as key destination for U.S. investment

As *Exhibit 2.2* highlights, Europe continues to attract more than half of U.S. aggregate foreign direct investment (FDI) outflows. The region's share of U.S. FDI has averaged roughly 57% of the total this decade, on par with other periods. That Europe remains the favored destination of U.S. firms runs counter to the fashionable narrative that Corporate America prefers low-cost nations like Asia, Latin America and Africa to developed markets like Europe. Reality is different for a host of reasons.

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

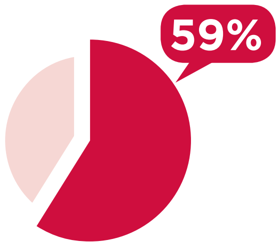
Economy	All Countries	Europe	Europe as a % of World
1950-1959	20,363	3,997	19.6%
1960-1969	40,634	16,220	39.9%
1970-1979	122,721	57,937	47.2%
1980-1989	171,880	94,743	55.1%
1990-1999	869,489	465,336	53.5%
2000-2009	2,056,007	1,149,810	55.9%
2010-2016	2,133,980	1,223,718	57.3%

Source: Bureau of Economic Analysis.
Data as of September 2017.

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, although medium-term growth prospects remain constrained by political instability, weaker commodity prices and sluggish global trade. In China, meanwhile, growth has fundamentally slowed as the 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 is on the rebound. Real economic activity is accelerating thanks to



Europe accounts for 59% of total R&D spending by U.S. affiliates

the European Central Bank (ECB)'s more accommodating monetary policies, and lower oil prices. 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 Euro area unemployment rate dropping below 10% over the past year. In August 2017, the unemployment rate stood at 9.1%, and is expected to trend lower. Lower oil prices are akin to a tax cut and have also fueled rising personal consumption levels.

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 foreign direct investment 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 ($717 billion in 2014) was greater than the total GDP of most nations. On a global basis, the aggregate output of U.S. foreign affiliates reached $1.5 trillion in 2014, with Europe (broadly defined) accounting for almost 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 trillion in 2014, representing roughly 60% of the global total.

- U.S. foreign affiliates are a major source of employment in Europe. U.S. foreign affiliate employment in Europe has increased steadily over the decade and a half, with affiliate employment in Europe rising from 3.7 million workers in 2000 to 4.5 million workers in 2014, the last year of available data. By our estimates, we forecast that U.S. foreign affiliates in Europe employed 4.5 million workers in 2016. On a global basis, U.S. majority-owned affiliates (including bank and non-bank affiliates) employed roughly 13.8 million workers in 2014, with the bulk of

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

these workers—roughly 33%—toiling in Europe. Interestingly, U.S. affiliates employed more manufacturing workers in Europe in 2014 (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.

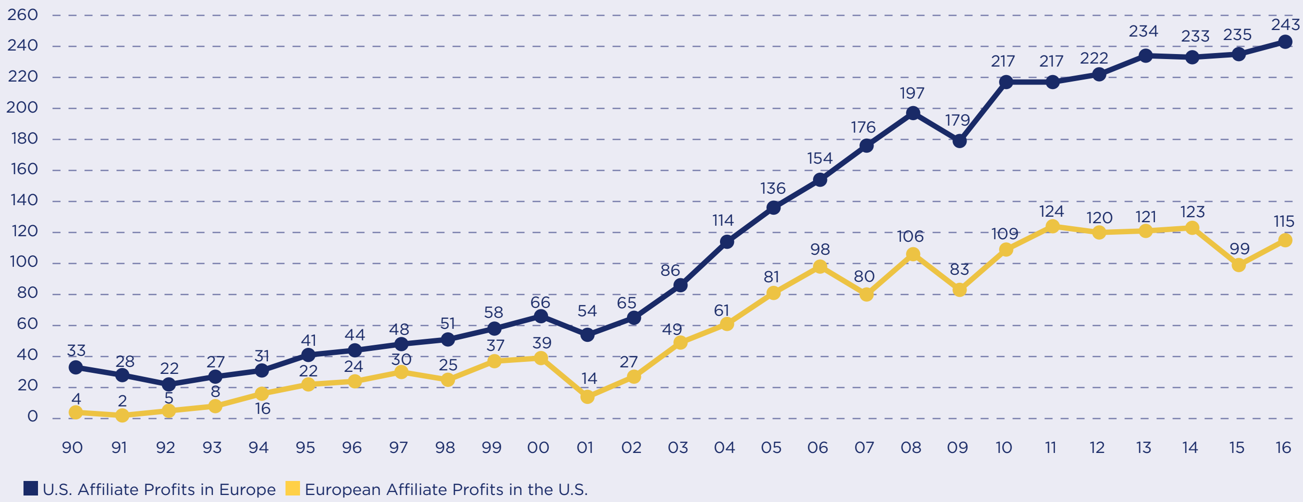
- In 2014, the last year of available data, U.S. affiliates sunk $30.8 billion on research and development in Europe, up slightly from the prior year. On a global basis, Europe accounted for 59% of total U.S. affiliate R&D in 2014. R&D expenditures by U.S. affiliates were greatest in Germany ($8.3 billion), the United Kingdom ($6.3 billion), Switzerland ($4.1 billion), Ireland ($2.4 billion), France ($2.4 billion), the Netherlands ($1.2 billion), and Belgium ($1.2 billion). These seven nations accounted for 84% of U.S. global spending on R&D in Europe in 2014.

- U.S. majority-owned foreign affiliate sales on a global basis (goods and services) totaled an estimated $6.6 trillion in 2015, with Europe, per usual, accounting for the bulk of U.S. affiliate sales. We estimate that U.S. foreign affiliate sales in Europe topped $3.1 trillion, up 4% from the prior year. U.S. affiliate sales in Europe, by our estimates, amounted to 47% of the global total. Reflecting the primacy of Europe, sales of U.S. affiliates in Europe were almost double the comparable figures for the entire Asian region in 2014, the last year of available data. Affiliate sales in the UK ($668 billion) were almost double the total sales in South America. Sales in Germany ($331 billion) were almost double the combined sales in Africa and the Middle East. U.S. affiliate sales of $341 billion in China in 2014 were below those in Ireland ($355 billion).

- Finally, Europe remains a critical source of global profits for U.S. firms. In 2016, U.S. affiliate income in Europe rose 4% to $243 billion *(Exhibit 2.3)*. That is a record high and comes against a very challenging backdrop in Europe. The latter still accounts for the bulk of U.S. global foreign affiliate income, with the region accounting for roughly 59% of global income last year. On a comparative basis, what U.S. foreign affiliates earned in Europe in 2016 was more than the combined affiliate income of Latin America ($72 billion) and Asia ($70 billion). It is interesting to note that combined U.S. affiliate income from China and India in 2016 ($16 billion), was only around one-quarter of what U.S. affiliates earned/reported in the Netherlands and also a relatively small figure when compared to U.S. earnings in countries such as the UK and Ireland.

In the end, Europe remains hugely important to U.S. multinationals. Corporate America's bet on Europe has paid handsome dividends. Indeed, as *Exhibit 2.3* highlights, the transatlantic partnership has been beneficial for both parties. When it comes to the bottom line—corporate earnings—both U.S. and European

2.3 U.S. Profits in Europe Steadily Advance, European Profits Rebound*
(Billions of $)



*Income of affiliates. Source: Bureau of Economic Analysis.
Data as of September 2017.

firms, including their workers and shareholders, have prospered from the deepening bonds of the transatlantic economy.

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 decade—indeed between 2001 and 2016, U.S. affiliate income (a proxy for global earnings) rose nearly 300%, soaring from $110 billion in 2001, to $410 billion in 2016.

In 2016, European affiliates of U.S. multinationals earned a record $243 billion, a figure almost four times larger than the level of 2000 ($65.6 billion). Meanwhile, U.S. affiliates of European multinationals recorded a strong 16% growth in earnings last year to $115 billion. With this robust annual growth, European affiliate earnings in the U.S. in 2016 came in around three times larger than earnings in 2000.

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, has 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

Why Europe Still Matters

Services are among the last frontiers of Europe

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 competitive advantages, which can take the form of hiring a life scientist in Ireland, conducting R&D with Swiss scientists, tapping the university talent of Grenoble, France, or participating in numerous government-sponsored R&D projects.

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

Services are the sleeping giant of the transatlantic economy and a key area 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 services economies of the U.S. 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. By sectors, 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.

On a regional basis, Europe accounted for 37% of total U.S. services exports and for 42% of total U.S. services imports in 2016. Four out of the top ten export markets for U.S. services in 2015 were in Europe. The UK ranked first, followed by Ireland (5th), Switzerland (8th), and Germany (9th). Of the top ten services providers to the U.S. in 2015, five were European states, with the UK ranked first, Germany second, Switzerland eighth, France ninth, and Ireland tenth. U.S. services imports from Europe in 2016 reached an all-time high at $212 billion, up roughly 27% from the depressed levels of 2009. Still, the U.S. enjoyed a $67 billion

No other region of the world has such an outsized influence on the economic success or failure of U.S. firms as Europe

trade surplus in services with Europe in 2016, versus a $167 billion trade deficit in goods with Europe.

U.S. services exports to Europe reached a record $279 billion in 2016, up more than one-third from the cyclical lows of 2009, when exports to Europe plunged 9%. Services exports (or receipts) have been fueled by a number of service-related activities like travel, passenger fares, education and financial services. In terms of transport, the top five export markets in 2015, ranked in order, were Japan, Canada, the UK, China, and Germany. The UK ranked as one of the largest markets for exports of insurance services; the UK and Luxembourg also ranked in the top five in financial services. Ireland was the top export market for U.S. trade in intellectual property—or charges or fees for the use of intellectual property rights. The UK ranked number one in telecommunications, computer and information services. As for 'other business service exports' or activities like management consulting and R&D Switzerland and the UK were top markets in 2015.

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 internet and falling communication costs. Affiliate sales of services have not only supplemented trade in services but also become the overwhelming mode of delivery. Affiliates sales of U.S. services more than doubled in the ten years from 2004 to 2014, exceeding $1 trillion for the first time in 2007. In 2014, the last year of full data, U.S. affiliate services sales ($1.5 trillion) were double the level of U.S. services exports ($742 billion in 2014).

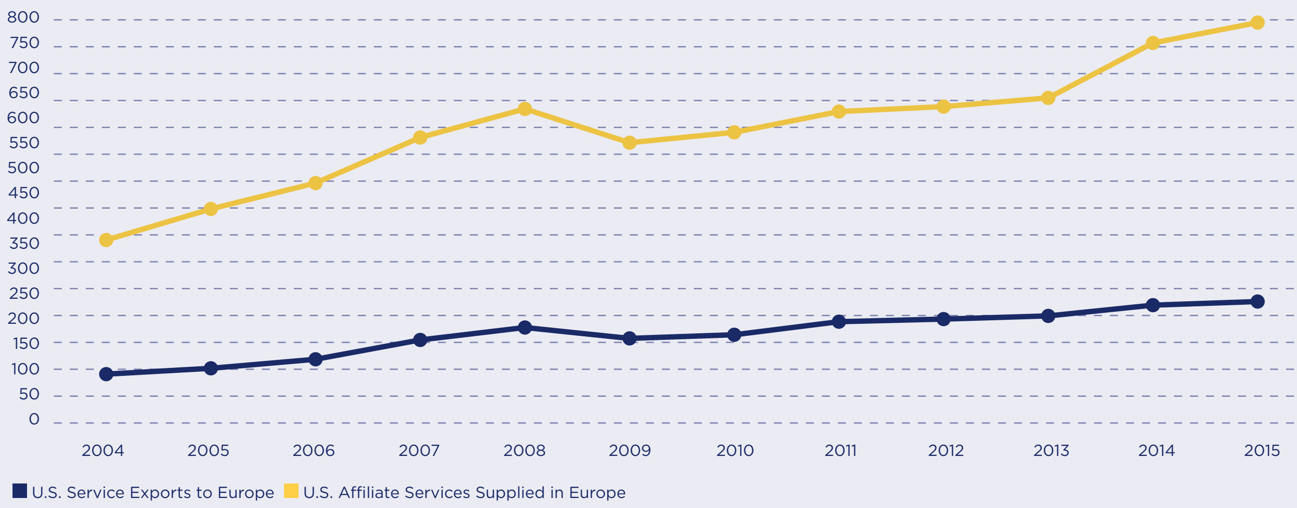
Sales of services of U.S. foreign affiliates in Europe have increased each year since plunging in 2009 on account of the transatlantic recession. Sales rose to $757 billion in 2014, up sharply from the depressed levels of 2009. U.S. services exports to Europe in the same year totaled $269 billion, well below sales of services by affiliates. In other words, like goods, U.S. firms deliver services in Europe (and vice versa) primarily through U.S. foreign affiliates.

The UK accounted for roughly 30% of all U.S. affiliate sales of services in Europe; affiliate sales totaled $222 billion, a figure greater than affiliate sales in South and Central America ($135 billion), Africa ($15 billion) and the Middle East ($22 billion). Affiliate services sales in Ireland remain quite large—$108 billion—and reflect strong U.S-Irish foreign investment ties with leading U.S. internet, software and social media leaders. Europe accounted for 50% of total U.S. affiliate services sales worldwide.

We estimate that sales of services of U.S. affiliates in Europe rose by around 5% to $795 billion in 2015. U.S. services exports to Europe for the same year were $276 billion, well below sales of affiliates *(Exhibit 2.4)*.

In the end, the U.S. and Europe each owe a good part of their competitive

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



Majority-owned bank and non-bank affiliates. Services supplied in Europe Estimates for 2015.
Source: Bureau of Economic Analysis.
Data as of September 2017.

position in services globally to deep transatlantic connections in services industries provided by mutual investment flows. A good share of U.S. services exports to the world are generated by European companies based in the U.S., just as a good share of European service exports to the world are generated by U.S. companies based in Europe.

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. The upshot: higher costs for both consumers and businesses. The cost of broadband services, for instance, differs tremendously across the continent thanks to different regulatory regimes. Europe's digital economy is also highly fragmented, and differs considerably with U.S. standards and protocols around digital data storage, collection and transmission.

In many service activities, national regulations make it difficult for companies to operate Europe-wide, preventing efficiency and cost benefits from being realized. Telecom services, biotechnologies, and pharmaceuticals are nationally regulated, leading to a sizable price divergence across Europe and reduced incentives for businesses to invest in R&D.

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, 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.

TESTIMONIAL

DANIEL CRUISE, CORPORATE VICE PRESIDENT, HEAD OF EUROPE AND APAC REGIONS, ARCONIC

Europe is a key region for Arconic, a global leader in multi-material precision engineered products and solutions for airframes structures, aero engines, automotive, commercial transportation, and building and construction.

The European market represents a significant part of the company's revenue with more than 10,000 employees over 45 sites and 10 countries across the region. Through our extensive European network of production and commercial facilities, we work in close partnership with our local customers to develop and manufacture highly innovative products.

45 sites
in 10 countries

TESTIMONIAL

MARCO COMASTRI, PRESIDENT EMEA, CA TECHNOLOGIES

At CA Technologies, we have been serving customers in Europe for almost 40 years; it's our largest market outside the U.S. A strong customer base, innovation and skilled labor are key assets for the market. Today we employ approximately 2,000 staff in Europe across 25 markets. Prague is currently our largest R&D site in Europe with 350 developers, innovating on all aspects of our portfolio including distributed and mainframe solutions.

However, for Europe to realize its full digital potential, the chronic STEM skills gap must be addressed. In December 2016, CA Technologies pledged to support the EU's Digital Skills and Jobs Coalition through its Create Tomorrow program designed to inspire, influence, and educate young people about careers in STEM. I am proud to announce that as of September 2017, the program has reached 10,000 students in the region.

Tapping into talent across Europe is key for our business; CA's Strategic Research Labs, works in partnership with Universitat Politècnica de Catalunya BarcelonaTech (UPC) to collaborate on research projects across the industry.

I strongly believe in the continued potential of this region. With the right policy focus, industry presence and educational excellence, Europe will continue to be at the forefront of innovation and economic growth.

With the right policy focus, industry presence and educational excellence, Europe will continue to be at the forefront of innovation and economic growth.

3

Europe's periphery remains attractive

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

Supportive business conditions, a large and wealthy consumer base, skilled labor, high quality R&D—these key attributes underpin the attractiveness of the EU to Corporate America. However, another factor that must be considered is a wide-ranging and diverse group of periphery nations, encompassing not only Central and Eastern Europe that are members of the EU, but also the Middle East, North Africa and Sub-Saharan Africa.

Europe's extended periphery represents one of the largest and most promising components of the global economy. While rising tensions in the region have attracted widespread media attention in recent years—from Russian sanctions, to turmoil and war in the Middle East and North Africa—these challenges have obscured two key facts. First, Europe's trade, financial and investment linkages with this part of the world have deepened considerably since the start of the century to the benefit of many U.S. firms operating in Europe. Secondly, the region is positioned to expand this year and beyond; rising per capita incomes, the more prominent role of women, improving labor markets, and rising confidence have triggered another wave of global consumption right at Europe's door. These two forces—economic growth and greater cohesion—are supporting foreign profit growth of U.S. multinationals, a key driver of overall corporate earnings growth in America. We expect this trend to continue as the growth outlook in Europe improves and as further economic integration between regions stimulates a pickup in the cross-border flow of goods, services, and capital.

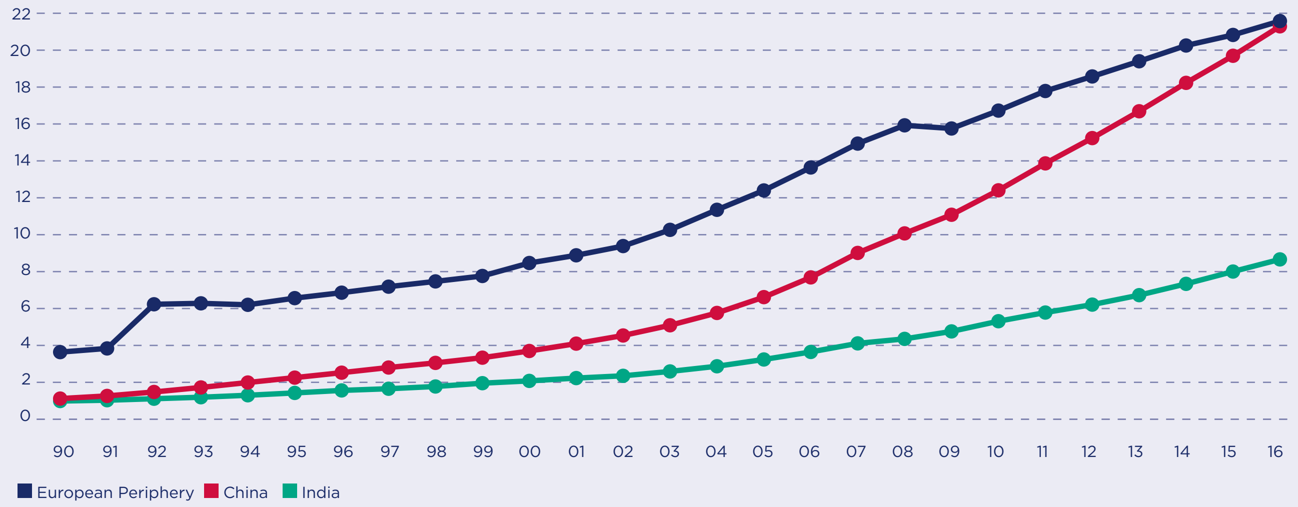
Taking stock of Europe's Central/Eastern neighborhood and extended periphery

For starters, 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.

EU enlargement has meant not only the geographic extension of Europe but also the enlargement of market opportunities, resources and profits in the East for U.S. multinationals. 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. While only two nations neighbor the U.S., a dozen or so nations are considered a part of Europe's immediate neighborhood. Access to this large

3.1 Out Producing China and India: 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, North Africa and Sub-Saharan Africa. Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.
Source: International Monetary Fund. Data as of April 2017.

market provides U.S. multinationals methods of diversification into new sources of investment and income. Yet with new opportunities comes additional risks to consider. U.S. companies looking to use the EU15 as a door to the wider European periphery market must navigate geopolitical risks and cultural barriers. However, in the end, preferential market access to countries in the East, and additional exposure to the bordering Middle East and Africa, have been hugely beneficial for European-based U.S. multinationals.

Europe's extended periphery is massive in size and scale. Indeed, the total output of this geographic cohort was slightly larger than China's total output, according to the latest annual figures (see Exhibit 3.1). In 2016, the periphery nations produced an estimated $21.6 trillion in output versus China's $21.3 trillion (numbers are based on PPP). Relative to India, well, it's not even close, with India's output just 40% of Europe's periphery in 2016. 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.

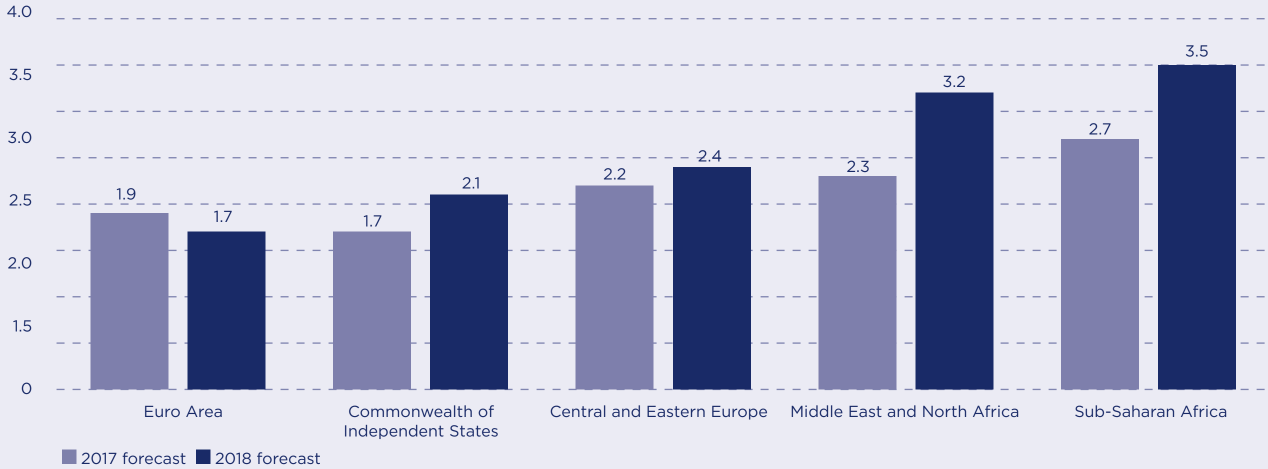
Consumption-led growth catches on throughout Europe's periphery

As the global synchronized expansion picks up steam, real economic growth in many regions of Europe's periphery is expected to accelerate in 2017. Secular forces for growth remain strong and include the build out of infrastructure, an improvement in the terms of trade, and above all else, the expansion of the emerging market middle class.

In fact, as depicted in Exhibit 3.2, the periphery is projected to expand at a pace much quicker than the Eurozone. The latter, according to the IMF, will grow at a pace of 1.9% this year, underperforming expected growth in Central and Eastern Europe (2.2%), the Middle East and North Africa (2.3%), and Sub-Saharan Africa (2.7%). In 2018, the outperformance in Europe's periphery will be even greater: as Euro

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.

Data as of 2017.

Source: International Monetary Fund.

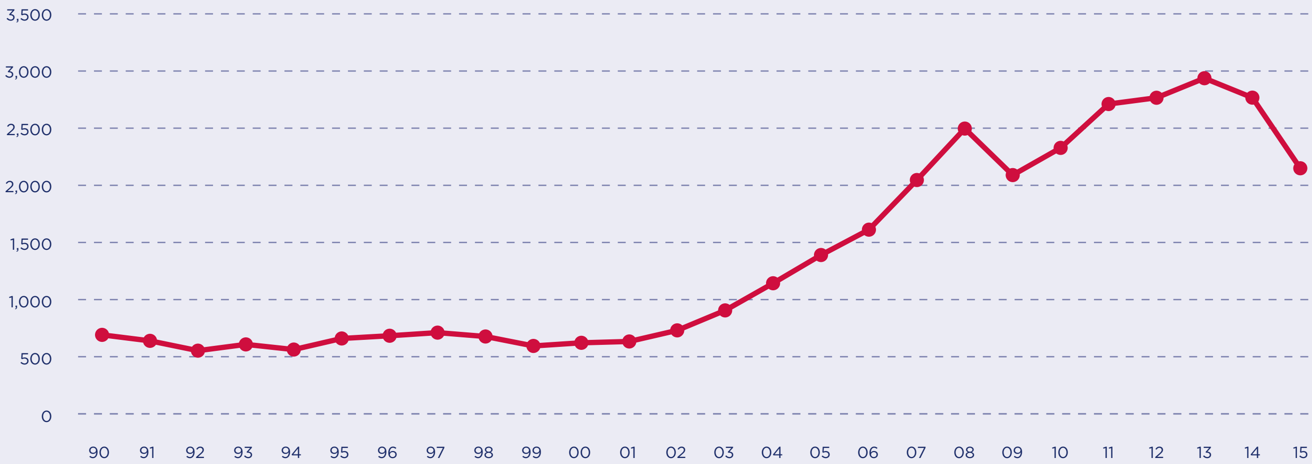
area growth softens, growth in its bordering regions will accelerate.

Still, growth in the Euro area will outpace that of the Commonwealth of Independent States (CIS) region in 2017 (1.7%), as Russia's recent recession continues to weigh on growth. Yet as Russia and its surrounding countries (dependent on trade with Russia) continue their recovery, the economy is trending towards 2.1% real GDP growth in 2018, thanks to more stable oil prices, a less volatile currency and a return to growth in certain industries. This bodes well for U.S. multinationals with operations in Europe looking to gain exposure to Russia's emerging middle class. Russia ranks fifth in terms of middle-class consumption expenditures as of 2015, behind only the U.S., China, Japan, and India, when measured on a purchasing power parity basis. Although U.S. and European sanctions following Russia's annexation of Crimea remain firmly in place, the sanctions are targeted to specific industries such as oil/gas, finance, defense, as well as certain technologies. In other non-sanctioned sectors, however, U.S. multinationals operating in Europe can benefit from the recovery in the East.

One of the defining features of this recent expansion pivots on personal consumption. Across the globe, consumers are feeling better and more confident about the future, and have emerged as a key driver of global growth. Indeed, reflecting many variables—greater employment, rising incomes, 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 noticeable downturn in 2015 as recessionary forces mounted in Russia and parts of the Middle East (see *Exhibit 3.3*).

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

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



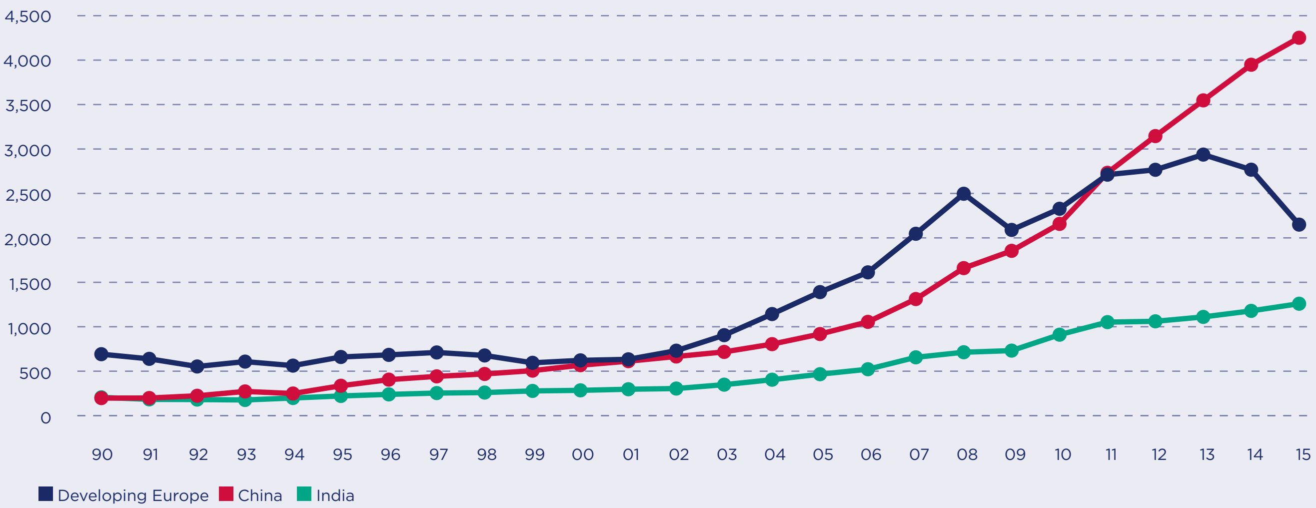
* Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.

Source: United Nations.

But a rebound in personal consumption expenditures (PCE) is projected for 2017 and 2018. With Russia emerging from recession, real PCE in CIS countries is expected to climb 1.5% this year and 2.1% in 2018. Also, economic and consumer confidence is up, especially in countries such as Hungary, Romania, Poland, and the Czech Republic, where economic sentiment indicators are at or near post-recession highs. Unemployment in the Czech Republic is now the lowest in the EU at 2.9%. At the same time, real household disposable income per capita in the EU is up almost 17% in just the past ten years. Healthy labor markets, rising confidence and greater income levels have allowed consumers to spend more, a bullish signal for U.S. foreign affiliates, especially those in consumption-led industries (discretionary, staples, technology, health care).

The consumer in developing Europe, while not as robust as consumers in China, easily outspends consumers in India (See Exhibit 3.4). Consumer spending in China (roughly $4.3 trillion in 2015) was greater than the combined personal consumption expenditures in developing Europe (Russia included). Spending in the latter, however, was nearly double the level of consumer expenditures in India—$2.1 trillion versus $1.3 trillion. In the end, consumption is a serious business in developing Europe, accounting for around 59% of GDP in 2015. That compares to a figure of 48% in more trade-dependent Asia and around 38% in China.

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, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine.

Source: United Nations

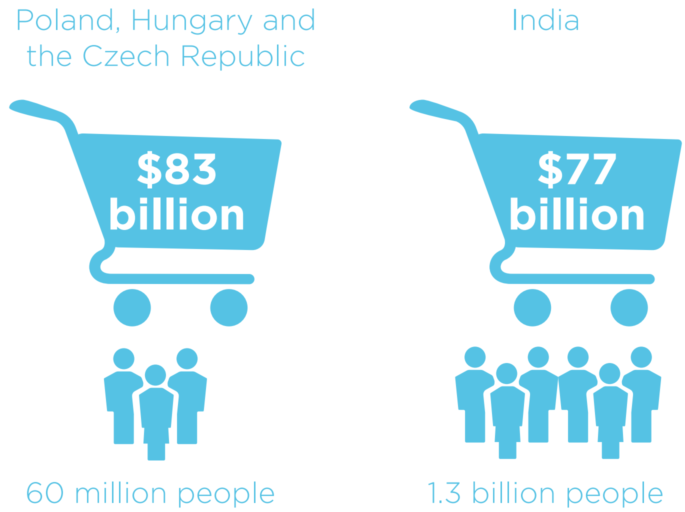
Rising levels of consumer spending, not surprisingly, have translated into the ever-rising sales revenues of U.S. foreign affiliates. Combined U.S. foreign affiliate sales in Poland, Hungary and the Czech Republic surged over 300% between 2000 and 2014, rising from just under $21 billion to nearly $83 billion. The latter figure, incidentally, was $6 billion larger than affiliate sales in India, home to a population of 1.3 billion people versus a total population of roughly 60 million in Poland, the Czech Republic and Hungary. What U.S. affiliates reported as income in Poland in 2016—$1.1 billion—was well above levels reported in the more developed markets of Finland and Portugal.

Trade and investment linkages within Europe

While Europe's recent recovery has been supported by domestic consumption as explained above, exports continue to be a key driver of economic growth in various EU Member States. 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 14.2% in 1995 to 20.8% in 2015. Countries in Central and Eastern Europe have the highest percentage of intra-EU trade as a proportion of total trade in goods, notably Hungary (61.6%), Lithuania (63.7%), the Czech Republic (64.8%) and Slovakia (70.4%).

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 also as a means of lowering costs through cohesive, cross-border supply chains.

Per the latter, firms seeking low cost, high-skilled labor have established trade connections with and/or foreign operations in Central and Eastern Europe's manufacturing industry. In this way, multinationals have access to low cost inputs while maintaining their geographic proximity to industrial production facilities in Western Europe.



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Poland, the Czech Republic, Slovakia and other states in the region represent these markets with a lower wage base by which U.S. firms have been quick to leverage. To that end, roughly 16% of Corporate America's European workforce is now based in Central and Eastern Europe, up from less than 8% at the start of the century. Affiliate employment in developing Europe expanded at an average annual pace of about 7% from 1999 to 2014, versus a comparable 1% rate in Europe's more developed economies.

In fact, there are more Polish manufacturing workers on the payrolls of U.S. foreign affiliates (roughly 113,800 workers) than manufacturing workers employed by affiliates in Spain (82,700), Ireland (48,500) or even Japan (78,100) and South Korea (60,500) for that matter.

Trade and investment beyond EU borders

European-based U.S. affiliates have also played an instrumental part in the surge of bilateral commerce with Europe's extended periphery, leveraging Europe as a springboard to the untapped and undeveloped markets surrounding the EU. In most cases, serving these distance 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.

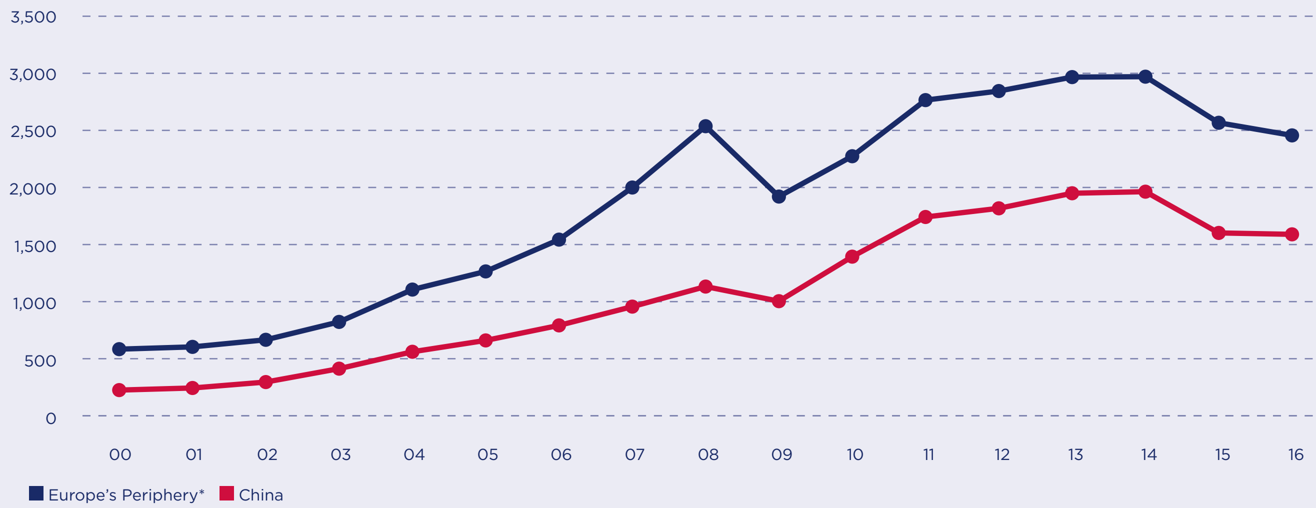
For example, although Turkey remains outside the EU, bilateral trade has soared over the past decade, with total EU-Turkey trade expanding 230% between 2000 and 2016. Similarly, trade with Russia has risen almost 200% since 2000.

Looking beyond Central and Eastern Europe, the extended periphery consumed $2.5 trillion in goods imports in 2016—a figure greater than imports of China and larger than that of the world's top importer of goods, the U.S. (see Exhibit 3.5). Imports in Europe's periphery are lower than their peak of $3.0 trillion in 2014, but regions that contributed most to this decline are expected to rebound in 2017. According to estimates from the IMF, the volume of Russian imports in 2017 will grow 7% (after a 25% decline in 2015 and relatively steady 2016). Meanwhile, the Middle East and North Africa (MENA) and Sub-Saharan Africa regions are each projected to increase their global imports by 4% (after prior declines of 0.2% and 6.7%, respectively).

Import demand in Africa has exploded over the past decade. The region consumed roughly $413 billion in

Europe is a springboard to the untapped and undeveloped markets surrounding the EU

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.

imports in 2016, a near fourfold increase from 2000, due to rising populations and income levels.

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 \$792 billion in 2016, representing an oil-fueled rise in import demand of over 450% from the levels of 2000.

And the global winner in providing goods and services to the new consuming masses of Morocco, Jordan, Turkey, and Russia has been none other than the EU—due in large part to geography, historical and trading ties, modern day financial linkages, and EU policies that have expanded and created various trade and investment channels with its periphery (e.g. Europe's Neighborhood Policy program). The EU was the top supplier to the MENA region (with a 23% share of imports in 2016), Sub-Saharan Africa (24%) and to Russia and its partners in the CIS (34%). 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.

The bottom line

Even in turbulent 2016, Europe remained a reliable source of income for U.S. multinational firms, thanks to the deep trade and investment linkages between the EU and the region's extended periphery. According to the latest data, U.S. foreign affiliate income earned in Europe rose almost 4% in 2016 while profits from many other major regions posted year-over-year declines. Profits from foreign affiliates in Latin America slipped 9.6%, income earned in the Middle East and Africa region was down 43.6%, and in neighboring Canada it fell 1.1%. Even in the Asia-Pacific region, foreign affiliate profits were only slightly up (+1.5%) from a year earlier. This underscores that using Europe as door to the wider peripheral market is a profitable long-term strategy for U.S. firms. In the decade ahead, greater economic convergence between Europe and its periphery and a rebound in GDP growth and personal consumption will only accelerate this trend.

TESTIMONIAL

AONGUS HEGARTY, PRESIDENT EMEA, DELL EMC

With large markets, entrepreneurial companies and a unique mix of skills and cultures, Europe is a key region for Dell EMC. One year ago, Dell combined with EMC and along with VMware, Pivotal, RSA, SecureWorks and Virtustream, created the world's largest privately-controlled technology company, Dell Technologies. Since the close of the merger, we've committed to invest almost $1B 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 a 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.

TESTIMONIAL

**TIMOTHY MULHERE,
EXECUTIVE VICE PRESIDENT
AND PRESIDENT, EUROPE AND
INTERNATIONAL REGIONS, ECOLAB**

At Ecolab we have identified three growth regions that will drive our financial ambition of $20 billion in annual sales, from last year's $13 billion. Europe is one of those three regions, alongside North America and Greater China. From Europe's complexity we have created opportunity, growing from a subsidiary business in Sweden in 1956 to operations that scale 35 countries, powered by our most important asset, our 10,000-plus associates, and 27 manufacturing plants. Ecolab's sales in Europe outpace those of every other region outside North America.

I believe the key to our success as a global organization is intimately linked to helping solve some of the world's most pressing and disruptive challenges: water scarcity, rising energy demand and the need for safe food. In Europe—unlike the rest of the globe—industry, not agriculture, is the greatest consumer of water. By 2030, it is estimated that the world will need 40 percent more water. This will pressure the very industry that makes Europe the mega-economy and center of power and influence that it is today.

What I have witnessed in Europe since my arrival earlier in 2017 is that our customers, and indeed the wider population, see value in our purpose both in terms of meeting their social responsibilities but crucially in driving higher financial performance. Saving resources also saves money. At Ecolab we are on an evolutionary journey, rethinking processes to reduce water and energy consumption, to provide and protect what is vital to us all: clean water, safe food, abundant energy and healthy environments.

10,000+
employees

27
manufacturing plants

4

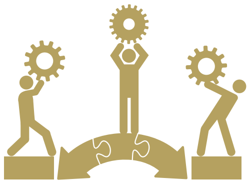
Carrying on: The European Union without the United Kingdom

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 30, 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.

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.



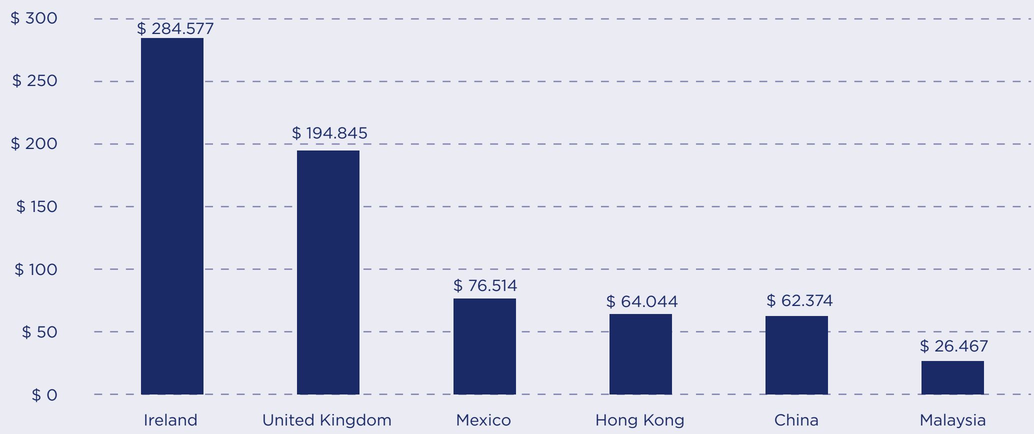
For decades, the UK has served as a strategic gateway or bridge to the EU for U.S. firms

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

	Billions of $	% of Global Total	Rank
Total Assets	5,392	21.6%	1
Value Added (Output of Affiliates)	172	11.6%	1
R&D	6	12.1%	2
Capital Expenditures	22	9.1%	2
Foreign Affiliate Sales	668	10.4%	2
Employment (thousands of employees)	1,349	9.8%	2
Manufacturing (thousands of employees)	311	5.8%	5

*Data for Majority-Owned Foreign Affiliates, 2014.
Source: Bureau of Economic Analysis
Data as of September 2017.

4.2 Corporate America's Favorite Export Platforms*
(Billions of $, 2014)



*Exports of U.S. Foreign Affiliates.

Source: Bureau of Economic Analysis.
Data as of 2017.

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.

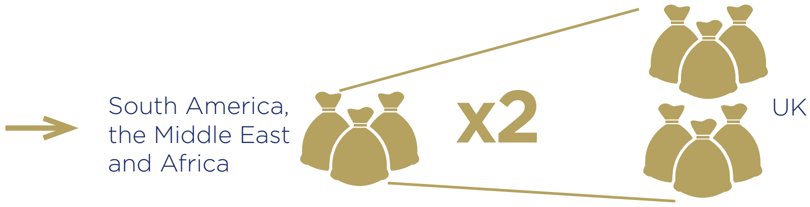
In short, leveraging the UK's access to the EU has been a profit-generating strategy for U.S. multinationals for decades. But this strategy is now at risk as the UK crafts a future outside the EU.

America's 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 $682 billion in 2016, the last year of available data, America's capital stock in the UK is more than double the combined U.S. investment in South America, the Middle East and Africa.

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.

Whatever the metric—total assets, R&D expenditures, foreign affiliate sales

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



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 $172 billion in 2014, about the same as the entire GDP of Vietnam or Ukraine. U.S. affiliates in the UK produced three times more than 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 Ireland, U.S. affiliate exports from the UK still totaled over $190 billion in 2014, 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 just over 9% of cumulative global foreign affiliate income, a proxy for global earnings. Only the Netherlands and Ireland rank higher.

4.3 Where the Profits Are Made in the World: Top Foreign Markets for U.S. Foreign Affiliate Income

Rank	Country	2000-2Q2017 ($ Billions)	% of World Total*
1	Netherlands	826.8	16.7%
2	Ireland	458.2	9.3%
3	United Kingdom	456.2	9.2%
4	Canada	396.5	8.0%
5	Switzerland	295.9	6.0%
6	Singapore	283.3	5.7%
7	Japan	154.6	3.1%
8	Mexico	140.3	2.8%
9	Australia	124.7	2.5%
10	China	113.8	2.3%

*Excluding Luxembourg, Caribbean and Other Western Hemisphere.
Source: Bureau of Economic Analysis.
Data as of September 2017.

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

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 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 U.K. exit on the EU is likely to be far less severe than the impact on the UK itself. Exports to the UK account for just 2.7% of EU GDP, as compared to 7.9% of UK GDP for exports going to the EU. 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 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, whereby the EU and the UK fail to agree a deal before the deadline of March 30, 2019, 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 and the Netherlands in particular stand out, with export shares of GDP to the UK of more than twice the EU average at 7.2% and 5.6%, 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 3.5% 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.

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. 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: The Primacy of the Transatlantic Partnership

The transatlantic partnership is too big to fail

Europe is a continent of economic success

We live in a world of perpetual change. The rise of emerging economies like China and India, the proliferation of disruptive technologies, and the emergence of non-state actors—all of these dynamics, and more, have converged in the past few years to challenge the post-war global economy and its principal architects—the United States and Europe. In particular, the world economy is in the midst of profound structural change owing principally to the inward/isolationist 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.

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. Today, the transatlantic economy remains the bedrock of the global economy. Yes, the economic progress of China, India and Brazil 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.

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 recovery is gaining pace; a laggard is now an economic leader. 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 US 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 the incessant diet of gloom and doom surrounding Europe. Yes, the continent faces formidable challenges in the months and years ahead. Putin's Russia, instability in the Middle East and North Africa, structural unemployment, 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 recovery is gathering pace. Real GDP growth in 2017 and 2018 will be the strongest in years. 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

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

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. 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, 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.


The case for investing in Europe has never been stronger
Strongest real GDP growth in years
Deep pool of human talent
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 New York University and Fordham University. In 1998, he was nominated as an Eisenhower Fellow. Presently, he is a Senior Fellow at the Center for Transatlantic Relations and a Fellow at the German Marshall Fund. He served as 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 and presently serves as the U.S. representative (Economic Policy Committee) to the Organisation for Economic Co-operation and Development in Paris, France for the U.S. Council for International Business. 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 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 U.S. positions on business matters. Aggregate U.S. investment in Europe totalled more than €2 trillion in 2016, directly supports more than 4.5 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

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