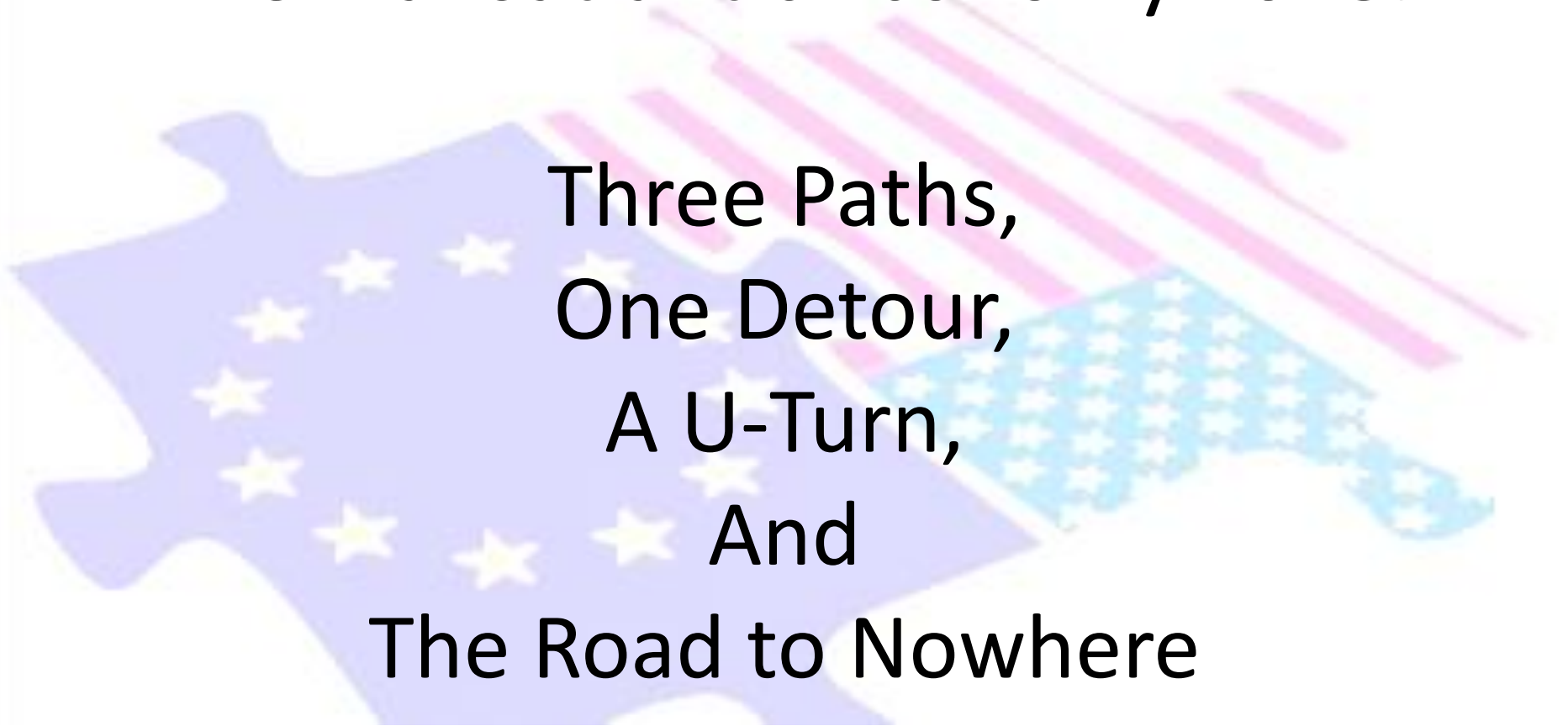


The Transatlantic Economy 2018:

A stylized map of Europe and North America is overlaid with the European Union flag (blue with yellow stars) and the United States flag (red, white, and blue stripes with stars). The map is semi-transparent and serves as a background for the title text.

Three Paths, One Detour, A U-Turn, And The Road to Nowhere

Daniel S. Hamilton, Johns Hopkins SAIS

The Current Agenda is Damage Limitation

- Buy American, Hire American
- Solar Panels and Other Potential Tariffs
- Tax Reform Ripples to Europe
- NAFTA Renegotiation: Implications for Europe
- Pressures on WTO
- Focus on Trade Deficits
- Tweet – for – Tweet Temptations
- Privacy Shield
- China Market Economy Status

NOW WHAT?

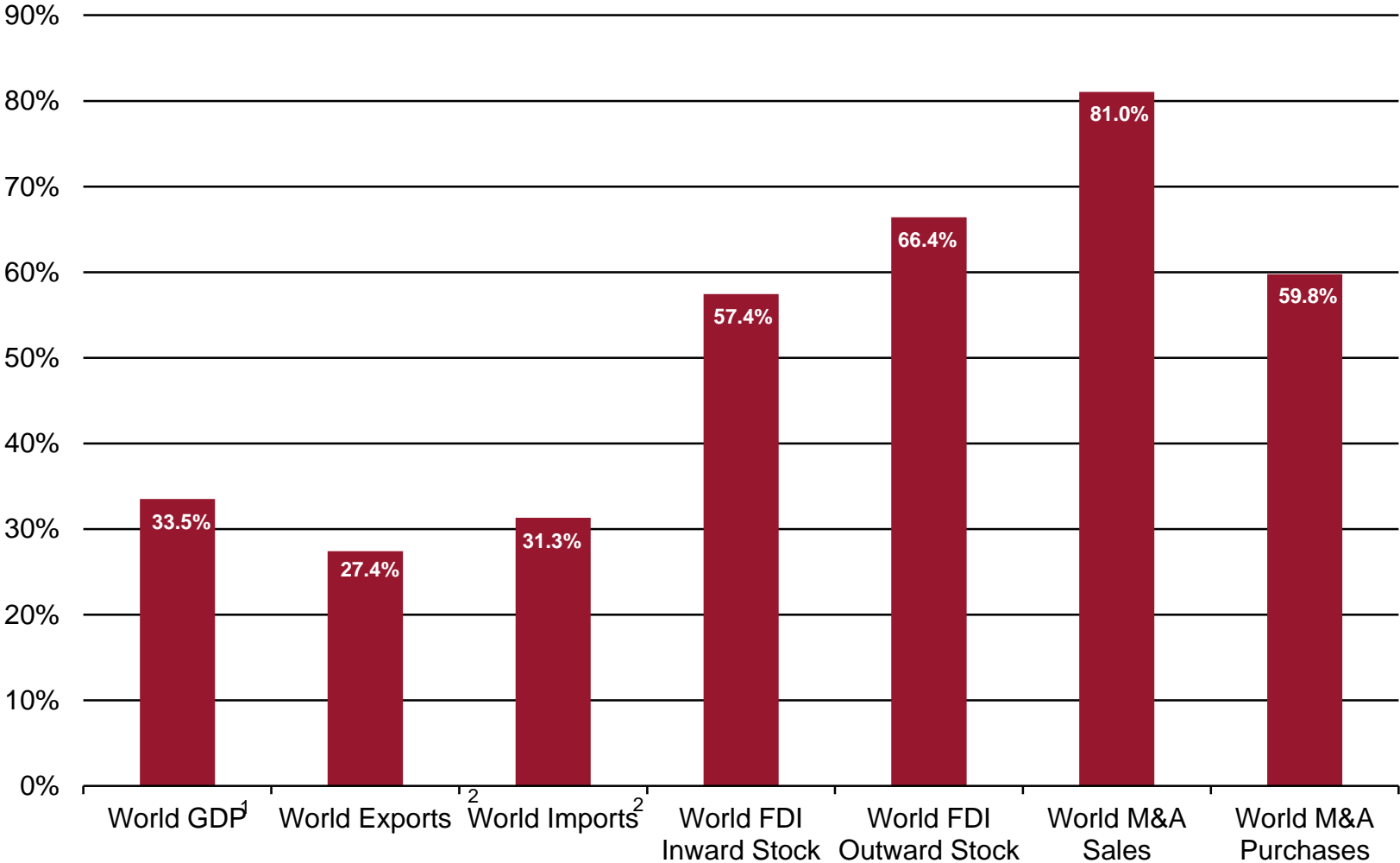
- **What do the facts tell us?**
- **Can we afford to walk away?**

The State of the Transatlantic Economy:

- Despite turbulence, US/Europe each other's most important markets. No other commercial artery in the world is as integrated.**
- Transatlantic gaps in growth, job creation and trade all narrowed in 2017.**
- The transatlantic economy generates \$5.5 trillion in total commercial sales a year and employs up to 15 million workers in mutually “onshored” jobs on both sides of the Atlantic.**
 - Largest and wealthiest market in the world**
 - 1/3 world GDP in terms of purchasing power**
 - 66% of outward stock and 57% of inward stock of global FDI**

The Transatlantic Economy vs. The World

Share of World Total

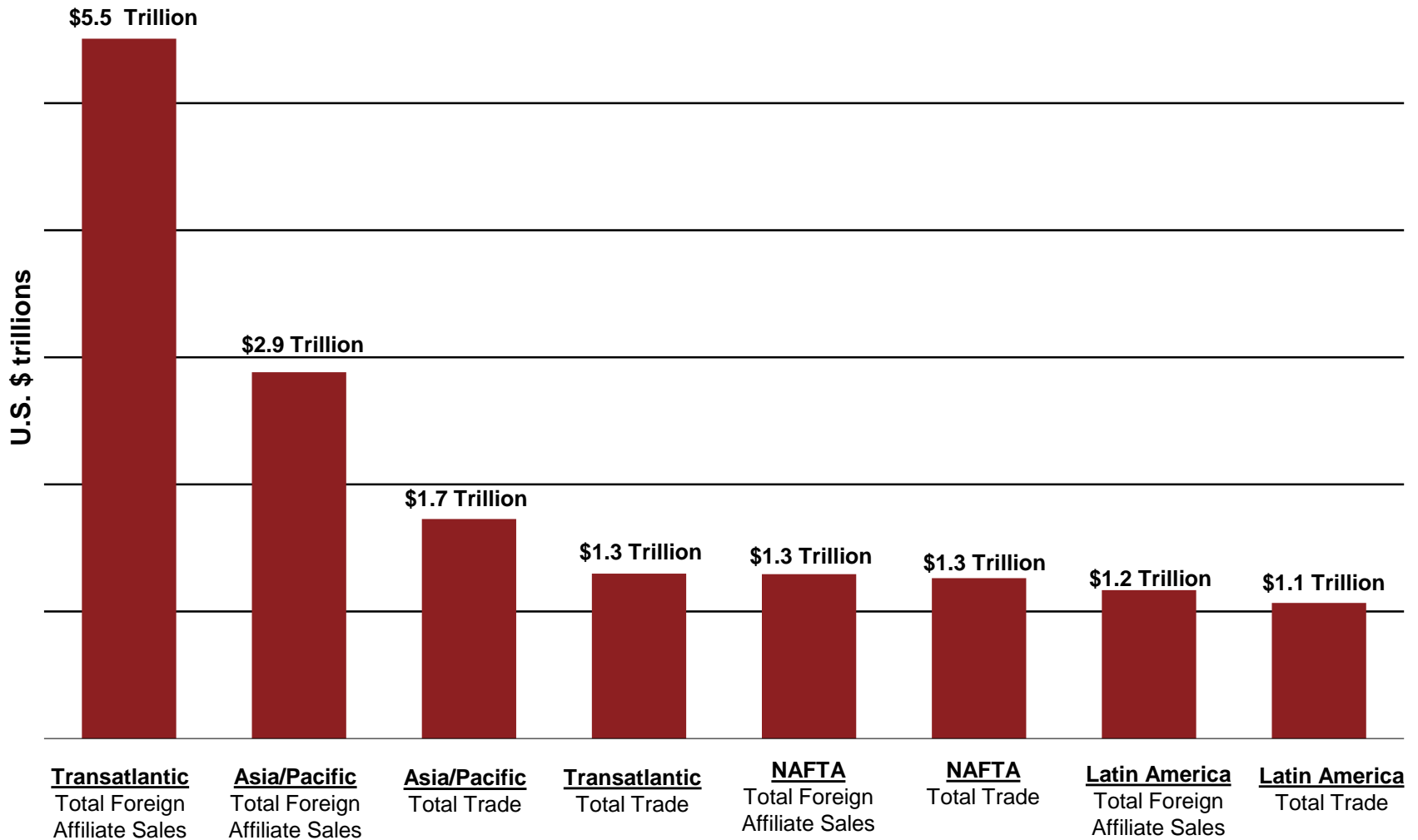


Sources: UN, IMF, figures for 2015.

1. Based on PPP estimates.

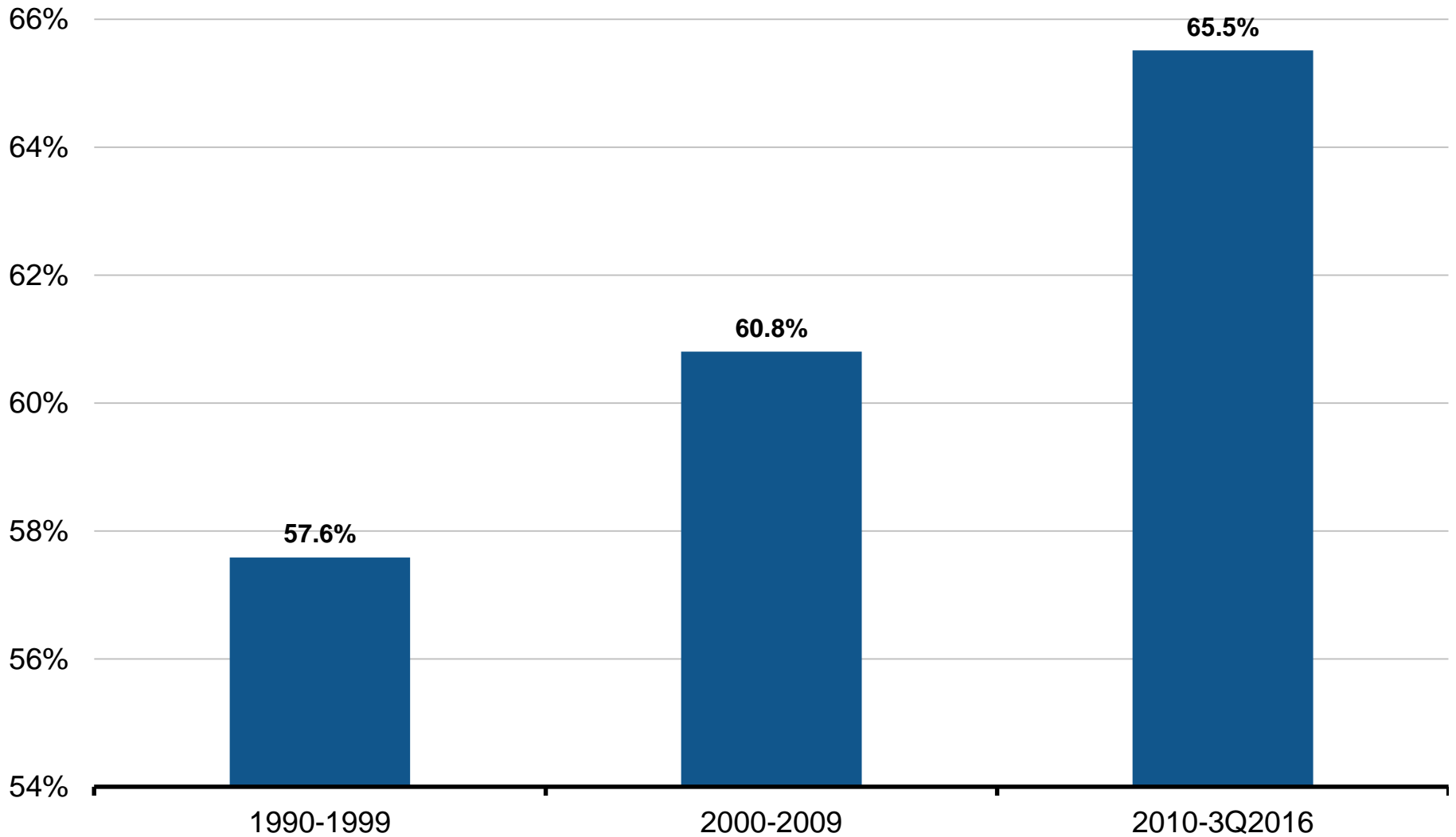
2. Excluding intra-EU, Norway, Switzerland and Iceland trade.

America's Major Commercial Arteries



Foreign Affiliate Sales: Estimates for 2015. Total Trade: Data for goods & services, 2015.
 Source: Bureau of Economic Analysis.

U.S. FDI Flows to Europe (% of World Total*)

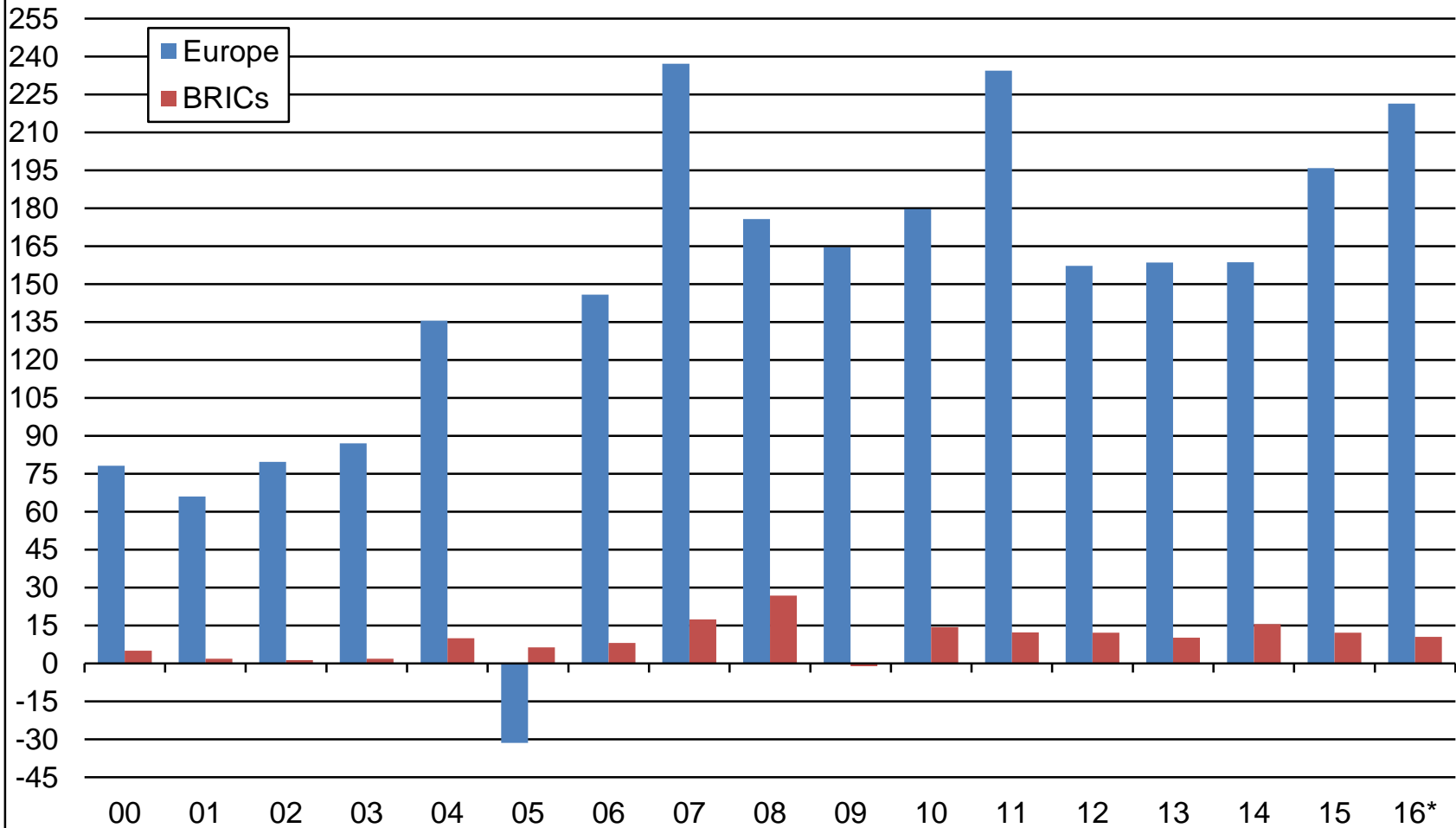


*Excluding Caribbean and Other Western Hemisphere.

Source: Bureau of Economic Analysis.

Data as of December 2016.

Table 6. U.S. Foreign Direct Investment Outflows to the BRICs vs. Europe¹
 Billions of \$



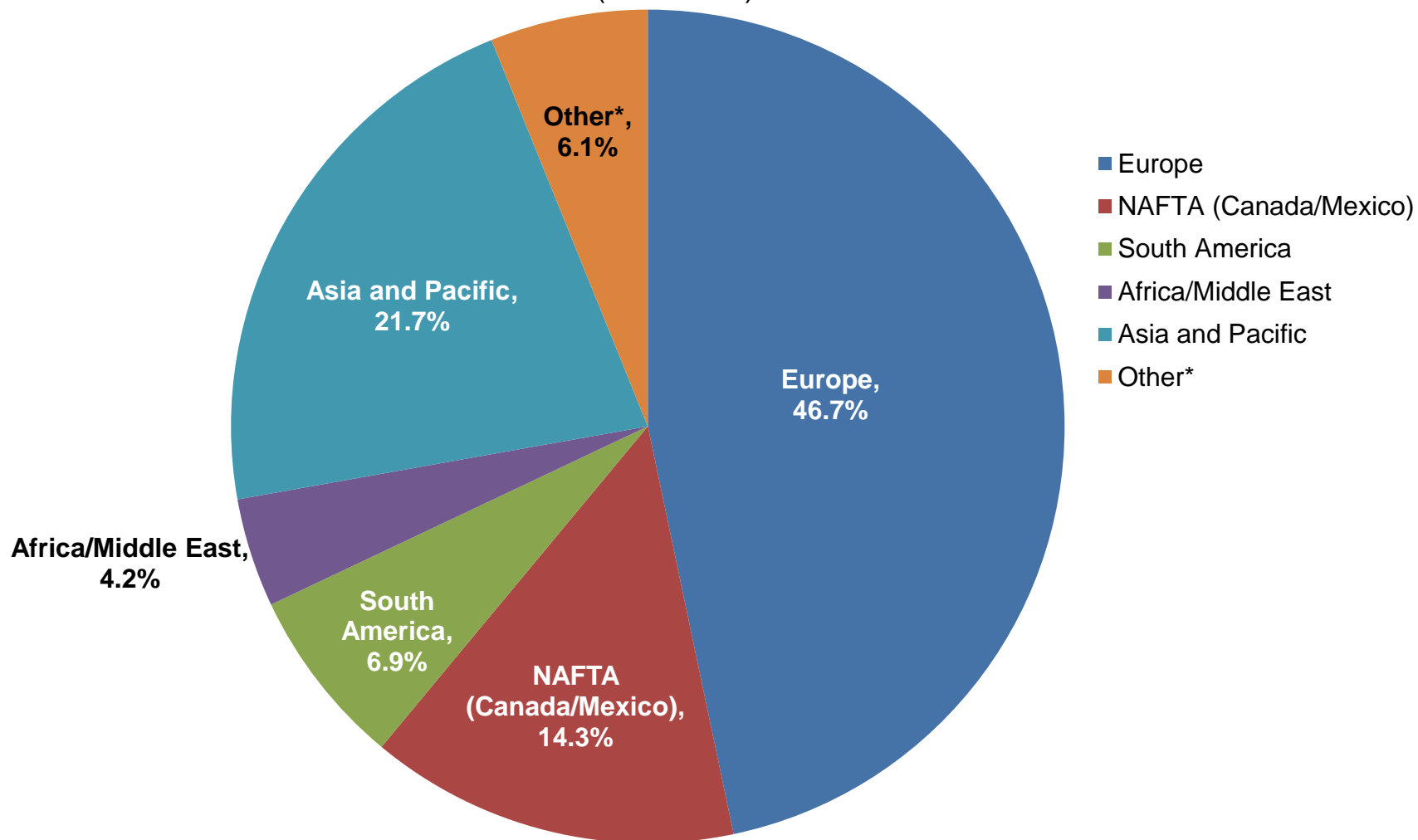
¹ Europe does not include flows to Russia.

*2016 Estimate based on 1Q-3Q data.

Source: Bureau of Economic Analysis.

Data as of December 2016.

U.S. FDI Outflows Excluding Flows to Nonbank Holding Companies, 2009-2015 (% of Total)

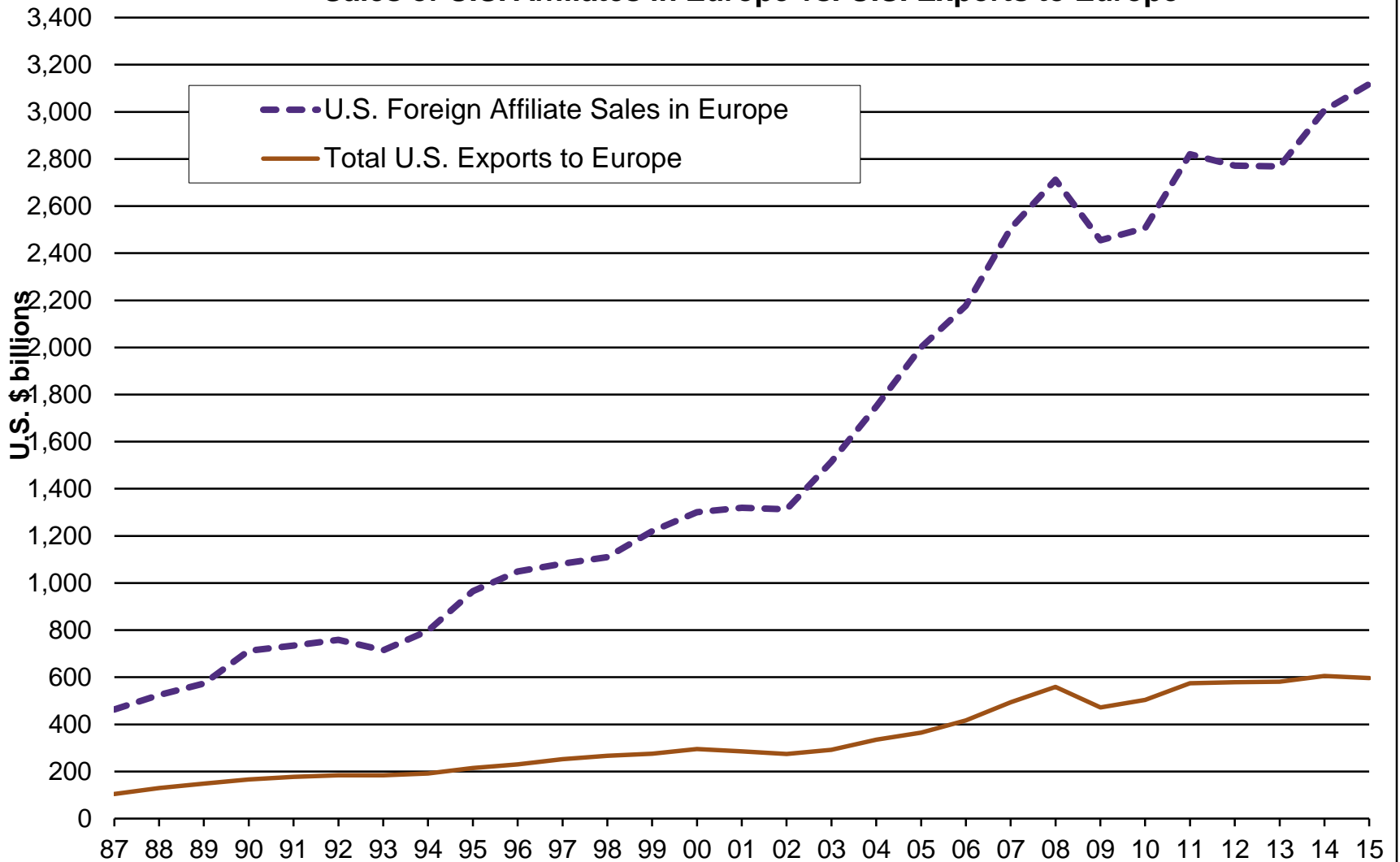


**Includes Central America (excluding Mexico) and Other Western Hemisphere.*

Source: Bureau of Economic Analysis.

Data as of February 2017.

Sales of U.S. Affiliates in Europe vs. U.S. Exports to Europe

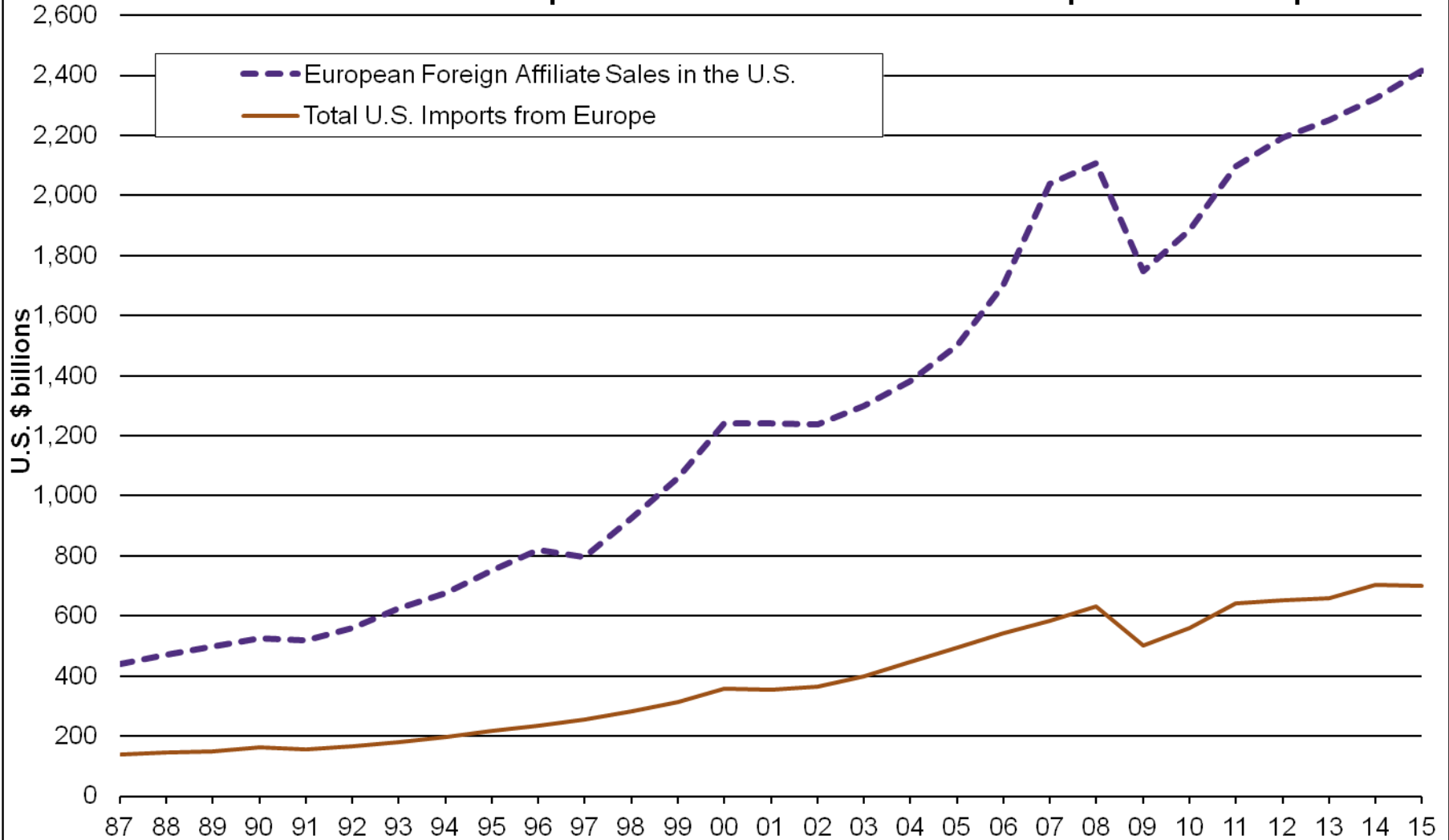


Source: Bureau of Economic Analysis.

Majority-owned non-bank affiliates data: 1987 - 2008. Majority-owned bank and non-bank affiliates: 2009 - 2015.

Foreign Affiliate Sales: Estimates for 2015.

Table 4. Sales of European Affiliates in the U.S. vs. U.S. Imports from Europe

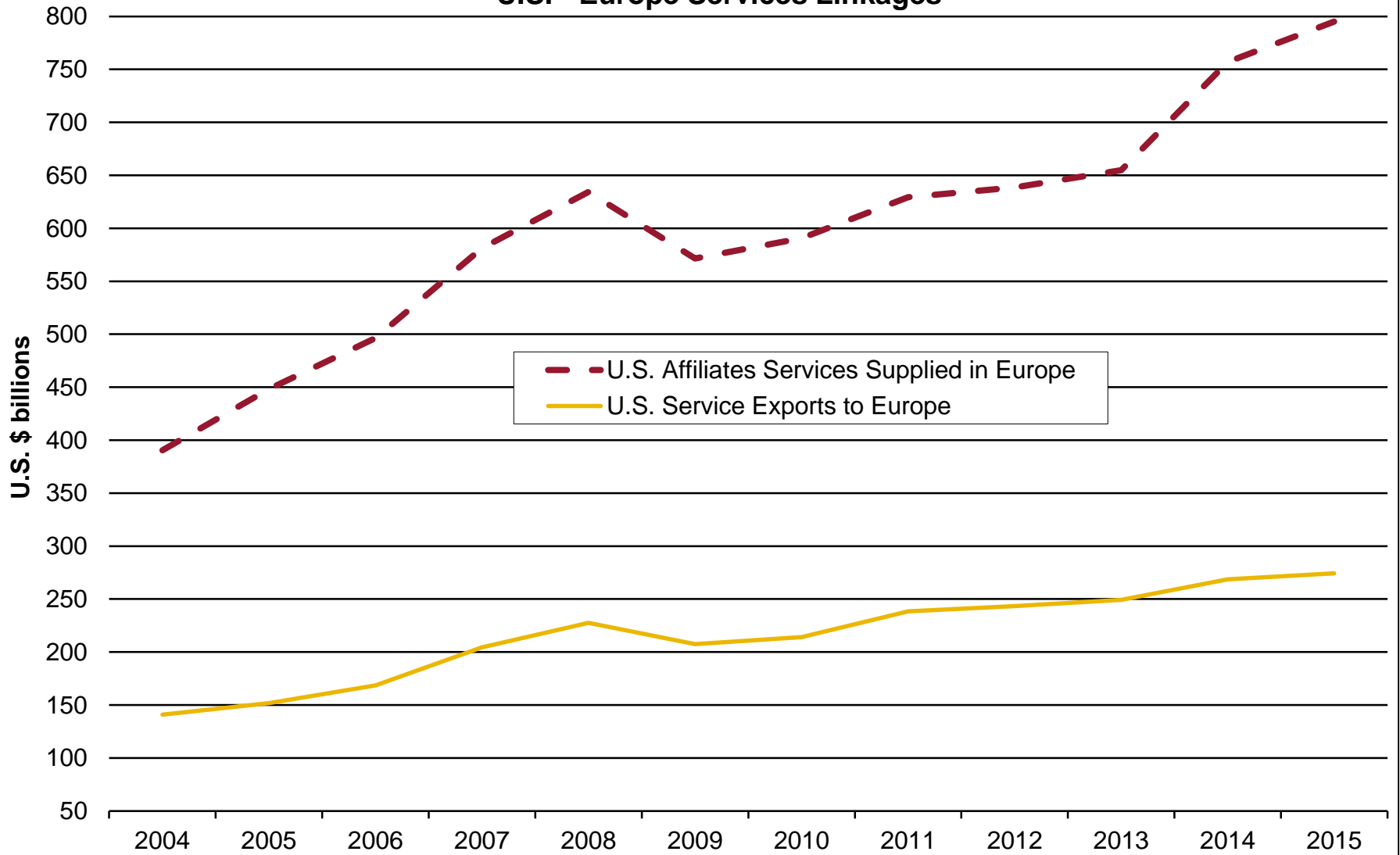


Source: Bureau of Economic Analysis

Majority-owned non-bank affiliates: 1987 - 2006. Majority-owned bank and non-bank affiliates: 2007 - 2015.

Foreign Affiliate Sales: Estimates for 2015.

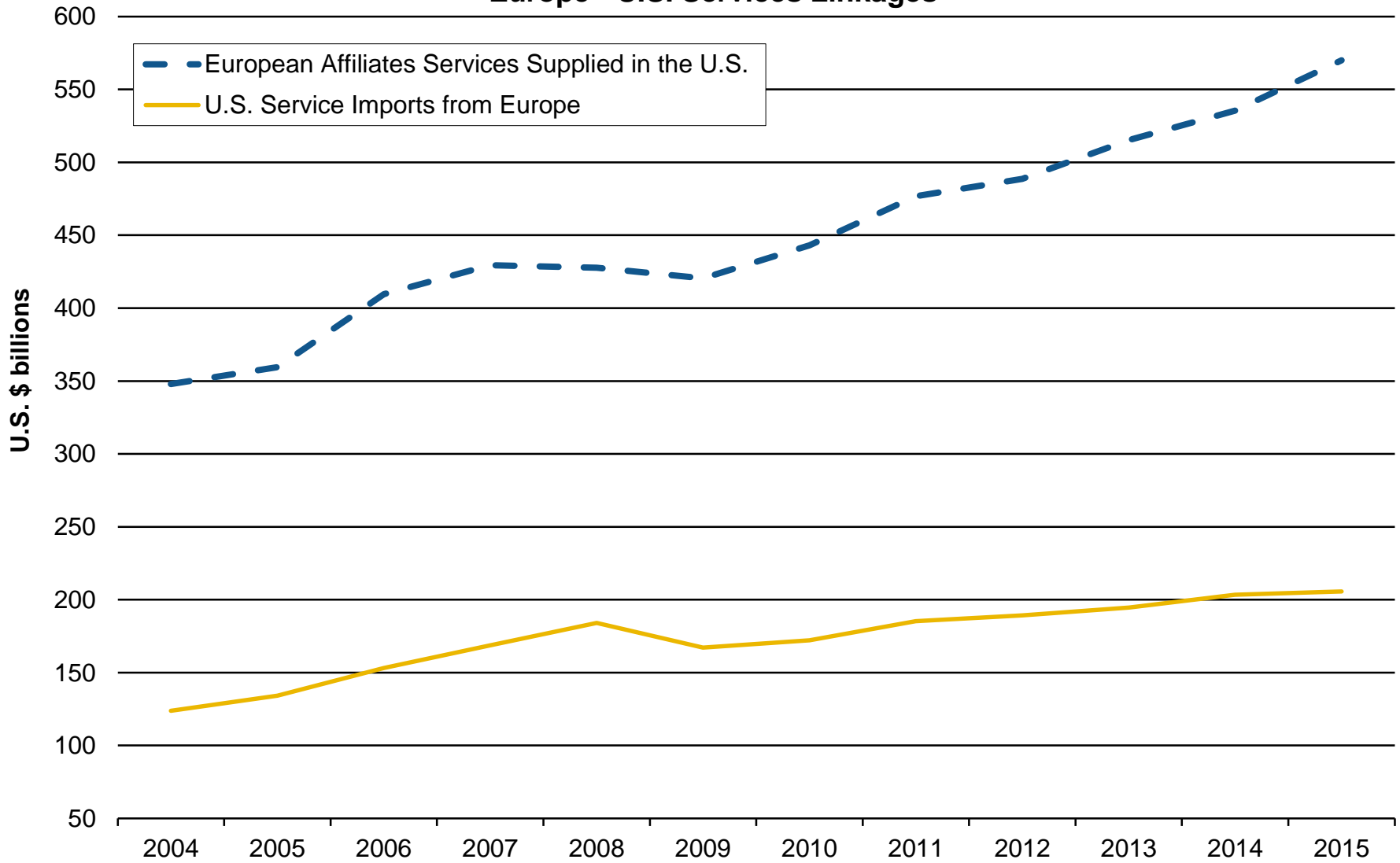
U.S. - Europe Services Linkages



Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in Europe estimates for 2015.

Europe - U.S. Services Linkages

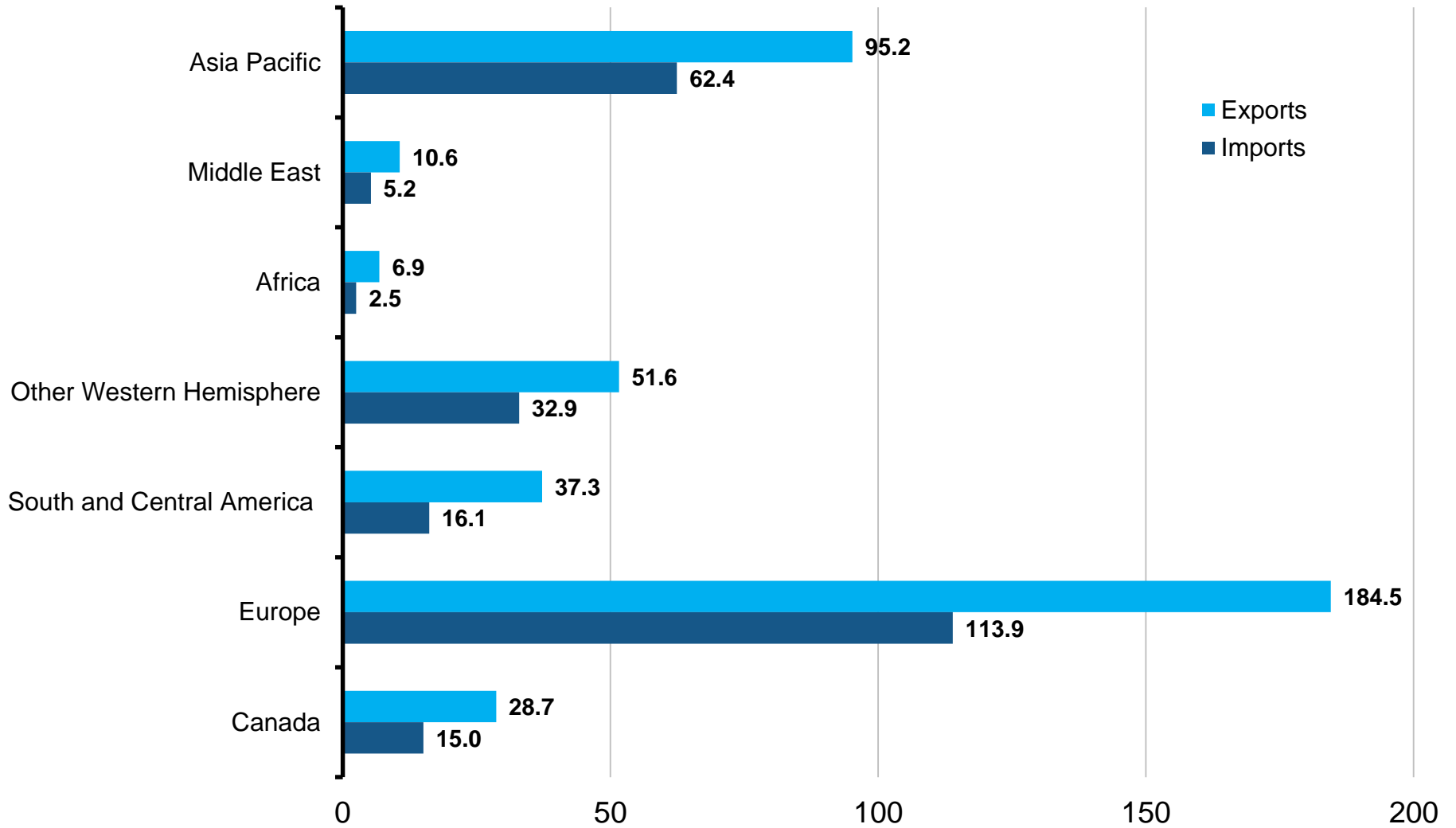


Source: Bureau of Economic Analysis.

Majority-owned bank and non-bank affiliates. Services supplied in the U.S. estimates for 2015.

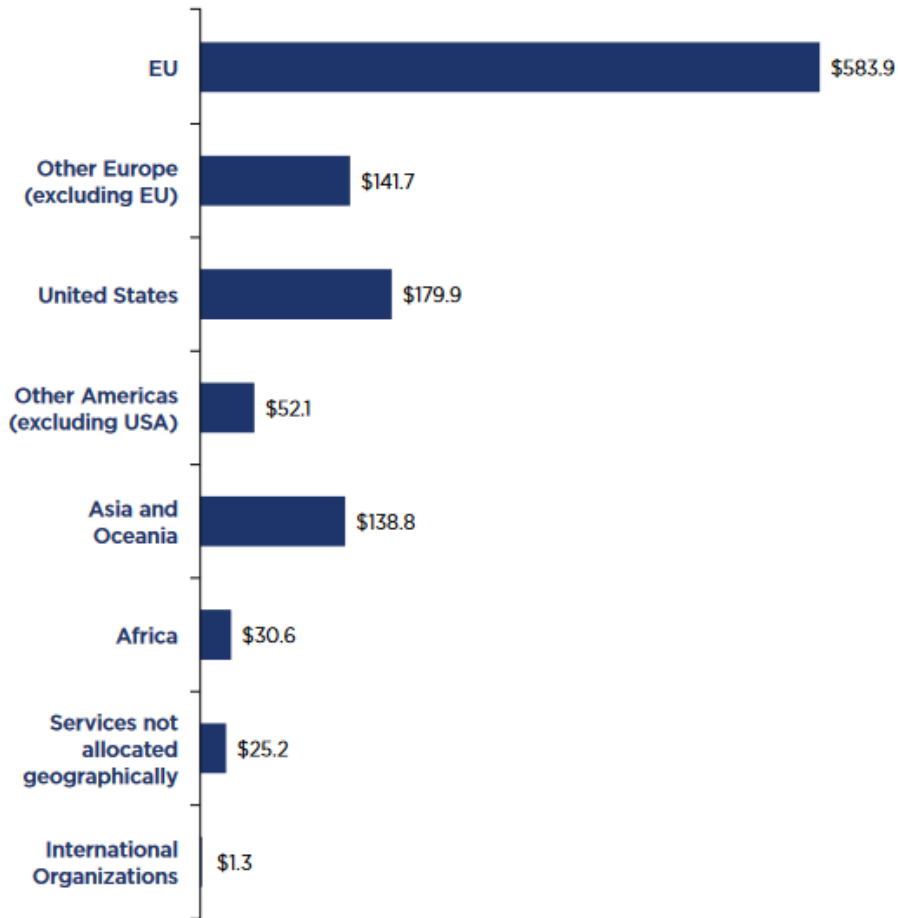
U.S. Trade in Digitally-Enabled Services, 2015

(Billions of \$)



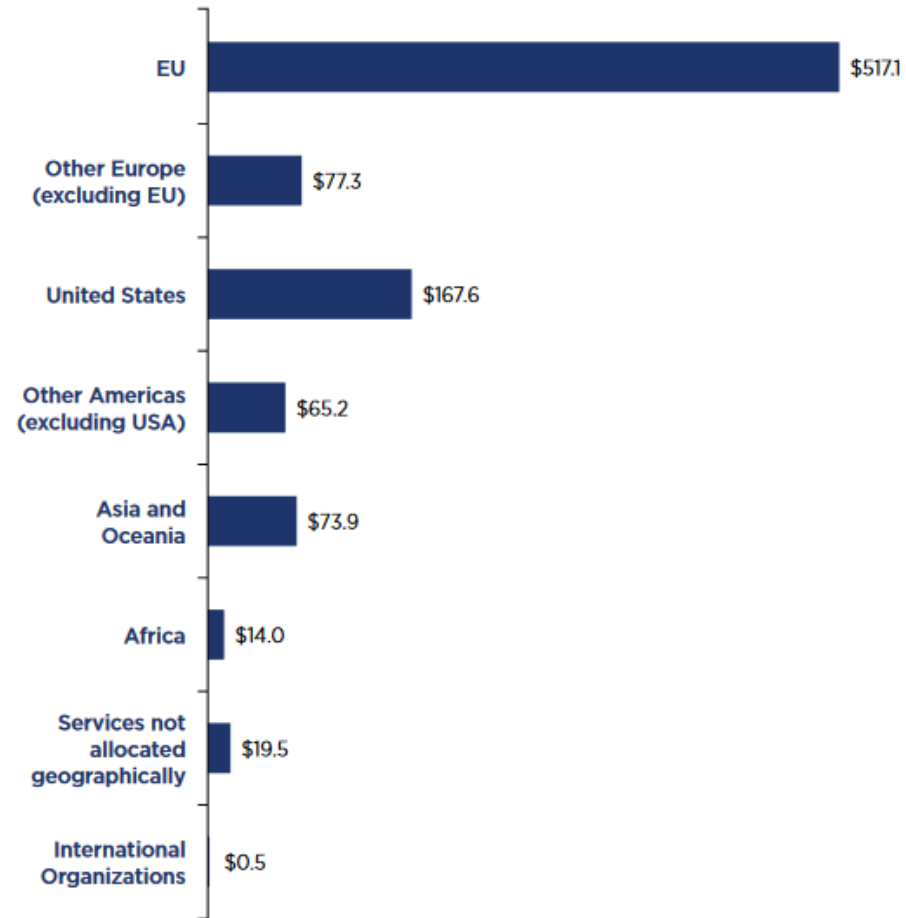
Source: Economics and Statistics Administration analysis using data from the Bureau of Economic Analysis
Data as of September 15, 2016.

Destination of EU Exports of Digitally-Enabled Services, 2014 (Billions of Dollars)



Source: U.S. Department of Commerce, Office of the Chief Economist using data from the Organization for Economic Cooperation and Development.

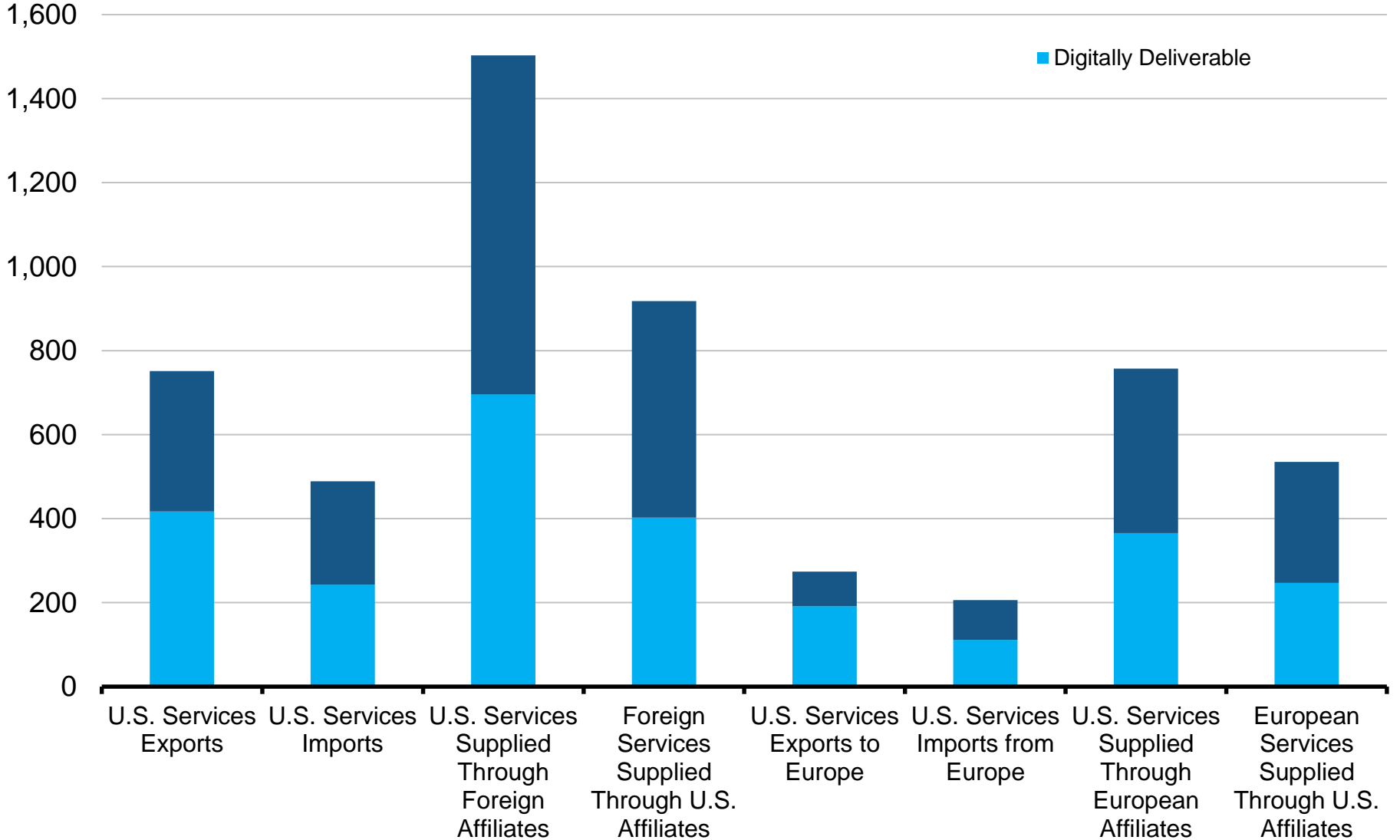
Origin of EU Imports of Digitally-Enabled Services, 2014, U.S.-EU (Billions of Dollars)



Source: U.S. Department of Commerce, Office of the Chief Economist using data from the Organization for Economic Cooperation and Development.

U.S. Digitally-Enabled Services Trade and Services Supplied through Affiliates, 2015

(Billions of \$)



*Affiliate data are for 2014, the latest available year.
 Source: U.S. Bureau of Economic Analysis.

NOW WHAT?

FUTURE SCENARIOS

SCENARIO ONE: THE DEEP FREEZE

- Obstacles too high, incentives too low for any ambitious transatlantic effort

Potential Impact

- **Unresolved issues fester, blow up**
- **Contentious trade policies**
- **Confrontation over WTO**
- **US efforts to split the EU**
- **Collapse of Privacy Shield**
- **US/EU become rule-takers rather than rule-makers**
- **Greater digital competition**
- **Disrupt value chains/Non-EU allies suffer as well**

SCENARIO TWO: CHERRY PICKING

- **Harvest whatever wins you can from comatose TTIP**
- **US-EU Zero Tariff Agreement on Goods**
- **Case by case agreements on regulatory cooperation**

POTENTIAL IMPACT

- **Momentum on goods trade; impact on jobs minimal**
- **Piecemeal progress on individual issues**
- **Can shift some regulatory attention to higher-risk countries**
- **Selective progress as global rule-makers**
- **Low profile: unlikely to succeed without high-profile push**
- **Does little to reposition for greater global competition**
- **Insufficient to mitigate privacy/tax/other disputes**
- **Nothing on the agenda for non-EU allies**

SCENARIO THREE: TTIP – THE SEQUEL

- **Seek Transatlantic Zero on Goods; open services markets; public procurement; rules of origin**
- **Seek regulatory cooperation, sectoral agreements, aligned on TBTs, SPS**
- **Open Platform for 3rd countries**

POTENTIAL IMPACT

- **Difficult to achieve with Trump and current Commission**
- **Toxic public reaction, especially in Europe**
- **Greater public anxieties re. trade**
- **ISDS a deal-breaker**
- **Little chance of progress re. labor/environment**
- **Does not address Brexit/open platform vague**

SCENARIO FOUR:

THE NORTH ATLANTIC MARKETPLACE

- **Drop TTIP in favor of a focus on Jobs and Growth in the North Atlantic.**
- **Not a ‘single undertaking’ limited to US-EU; multi-channel initiative**
- **Seek series of bilateral Jobs and Growth Agreements, not only US-EU but also US-UK, UK-EU, US-non-EU Europe, EU/Canada/Mexico etc.**
- **a) jobs and growth: workforce development; SMEs; innovation economy; digital economy.**
- **b) tackle trade barriers to these goals.**
- **c) Split investment from trade; Exclude ISDS; affirm the primacy of domestic law.**
- **d) Regulatory cooperation should be about helping regulators become more efficient and effective at protecting their citizens in ways that are democratically legitimate and accountable, and not primarily about removing or reducing ‘non-tariff barriers to trade’. Limit to goods and services traded between the two parties. Apply only to executive agencies, not legislative bodies.**
- **e) align policies to 3rd countries such as China.**

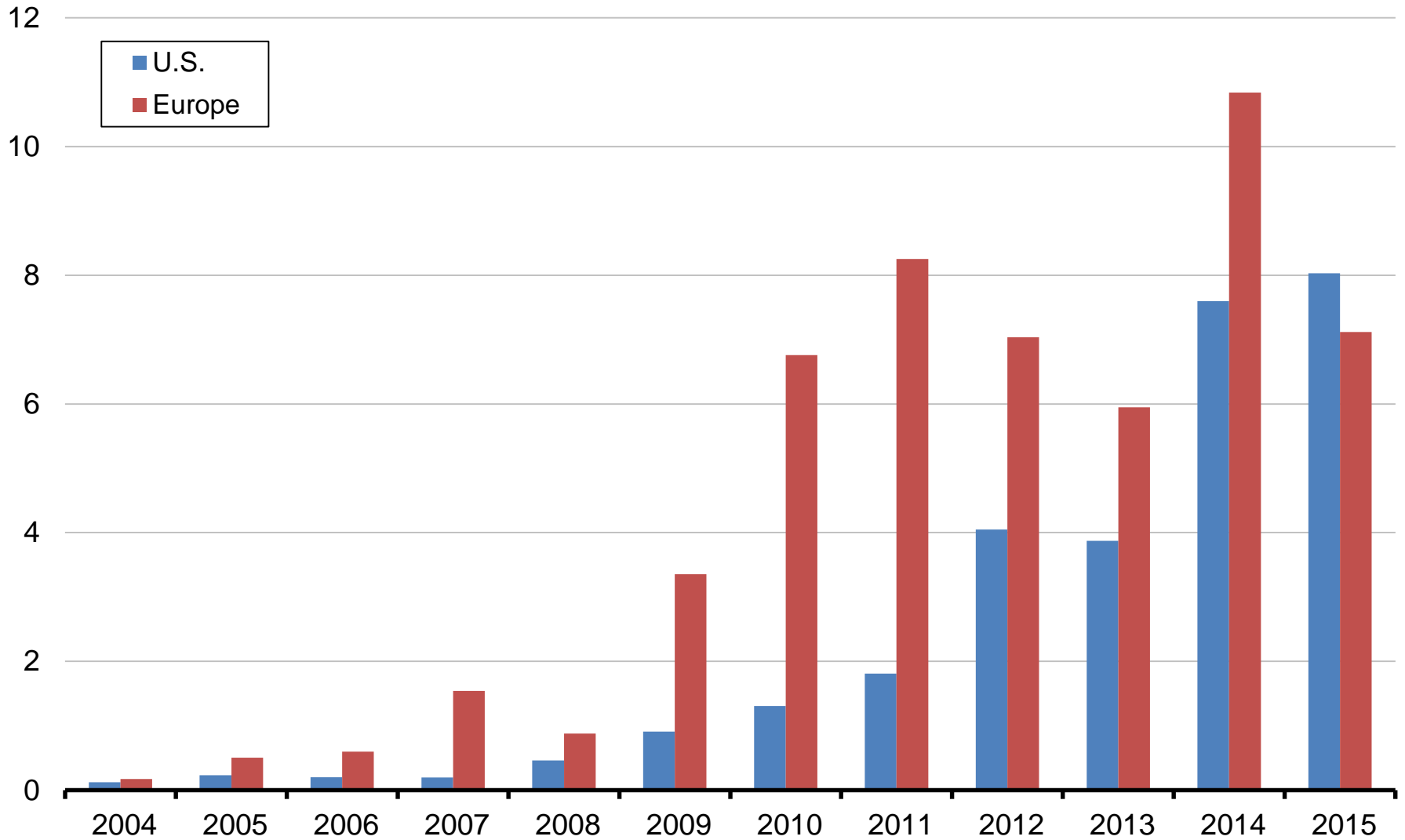
POTENTIAL IMPACT

- Recognizes new dynamics of Europe/Brexit/broader value chains
- Seeks to strengthen each foundation of North Atlantic space.
- Addresses anxieties about jobs and growth.
- Addresses popular critique of ISDS, regulatory harmonization.
- Addresses concerns about lower 3rd country standards; repositions North America and Europe as rule-makers.
- Difficult to manage/different tracks.
- Requires high level support, not limited to trade officials.

Thank you!

Chinese Foreign Direct Investment Outflows - U.S. and Europe

(Billions of U.S. \$)



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

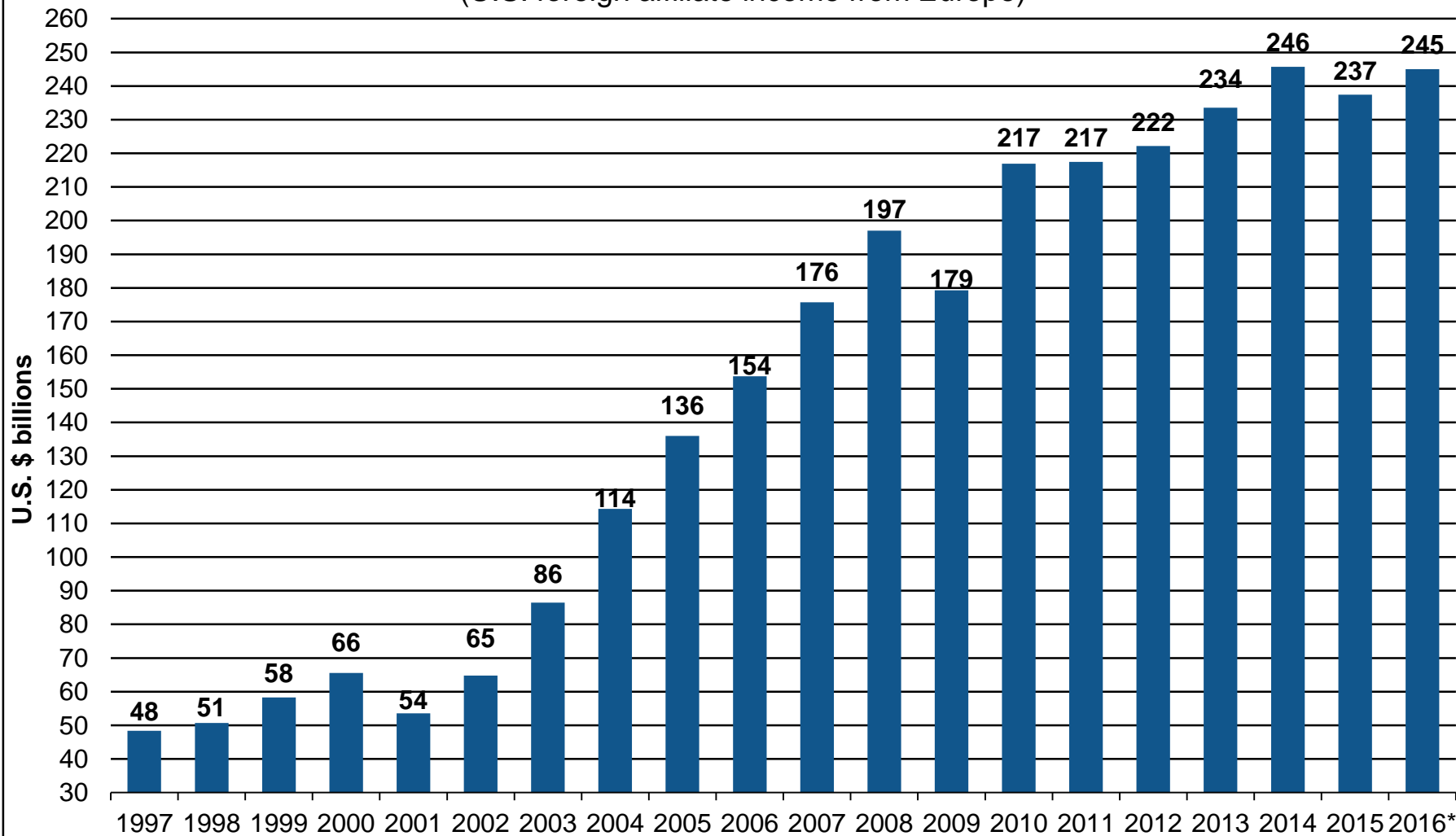
Top 20 US States Total Goods Exports to Europe, by Value (\$Billion)

<u>U.S. State</u>	<u>2015</u>		<u>U.S. State</u>	<u>2015</u>	
California	33.1	2.4x > China	Ohio	9.5	2.4x >
Texas	31.9	2.8x > China	Florida	9.0	8.0x >
New York	28.2	7.5x > China	Georgia	9.0	3.4x >
Washington	14.2	1.4x < China	New Jersey	9.0	5.9x >
Illinois	12.3	2.6 > China	Kentucky	8.3	4.2x >
Louisiana	10.7	1.6 > China	North Carolina	7.0	3.3x >
Pennsylvania	10.5	5.0 > China	Michigan	6.9	2.2x >
South Carolina	9.8	2.2 > China	Connecticut	6.3	6.1x >
Massachusetts	9.5	4.7 > China	Tennessee	6.2	2.8x >
Indiana	9.5	7.5 > China	Virginia	5.0	3.0x >

U.S. Total \$319.7 Billion

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

U.S. Earnings in Europe (U.S. foreign affiliate income from Europe)

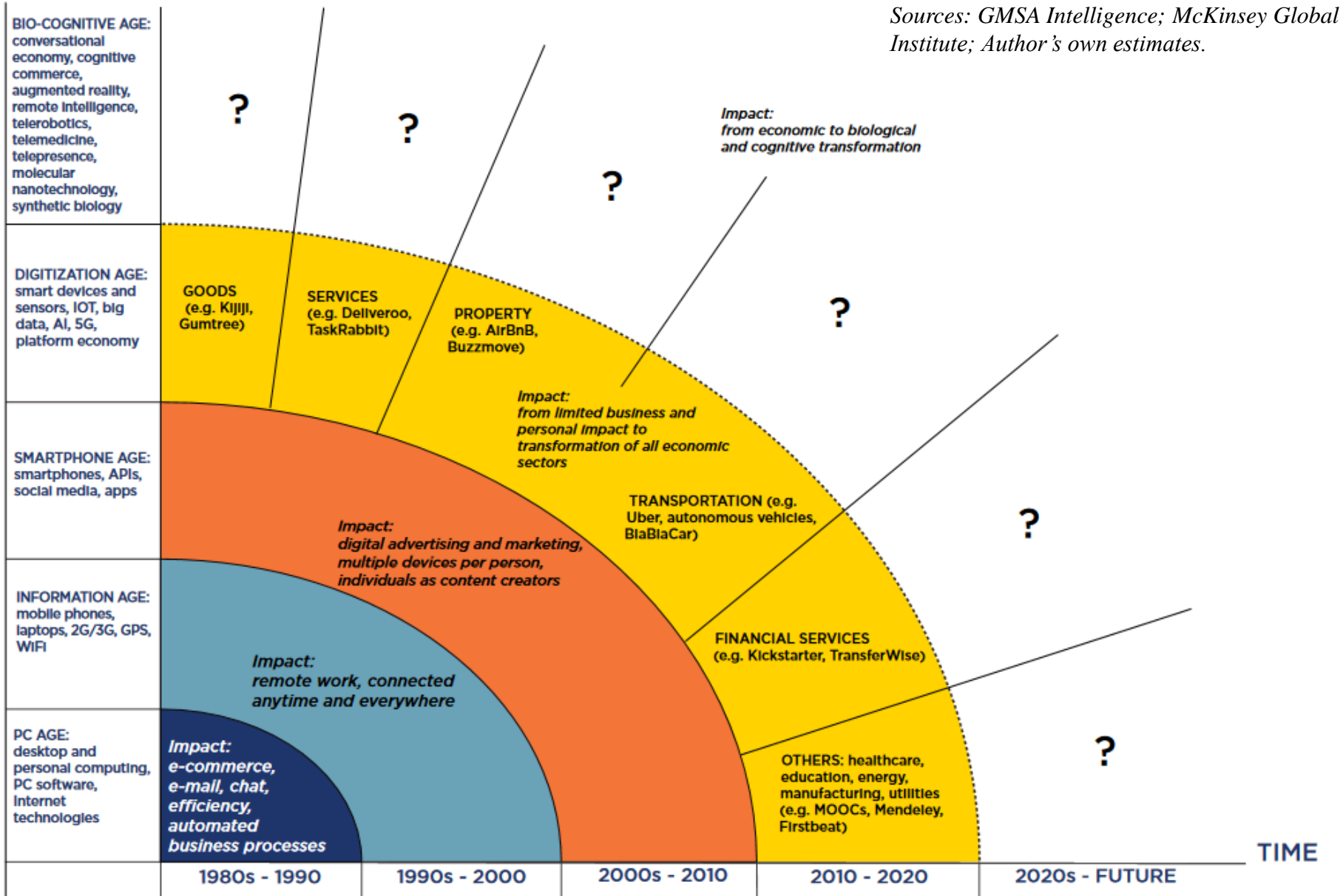


Source: Bureau of Economic Analysis

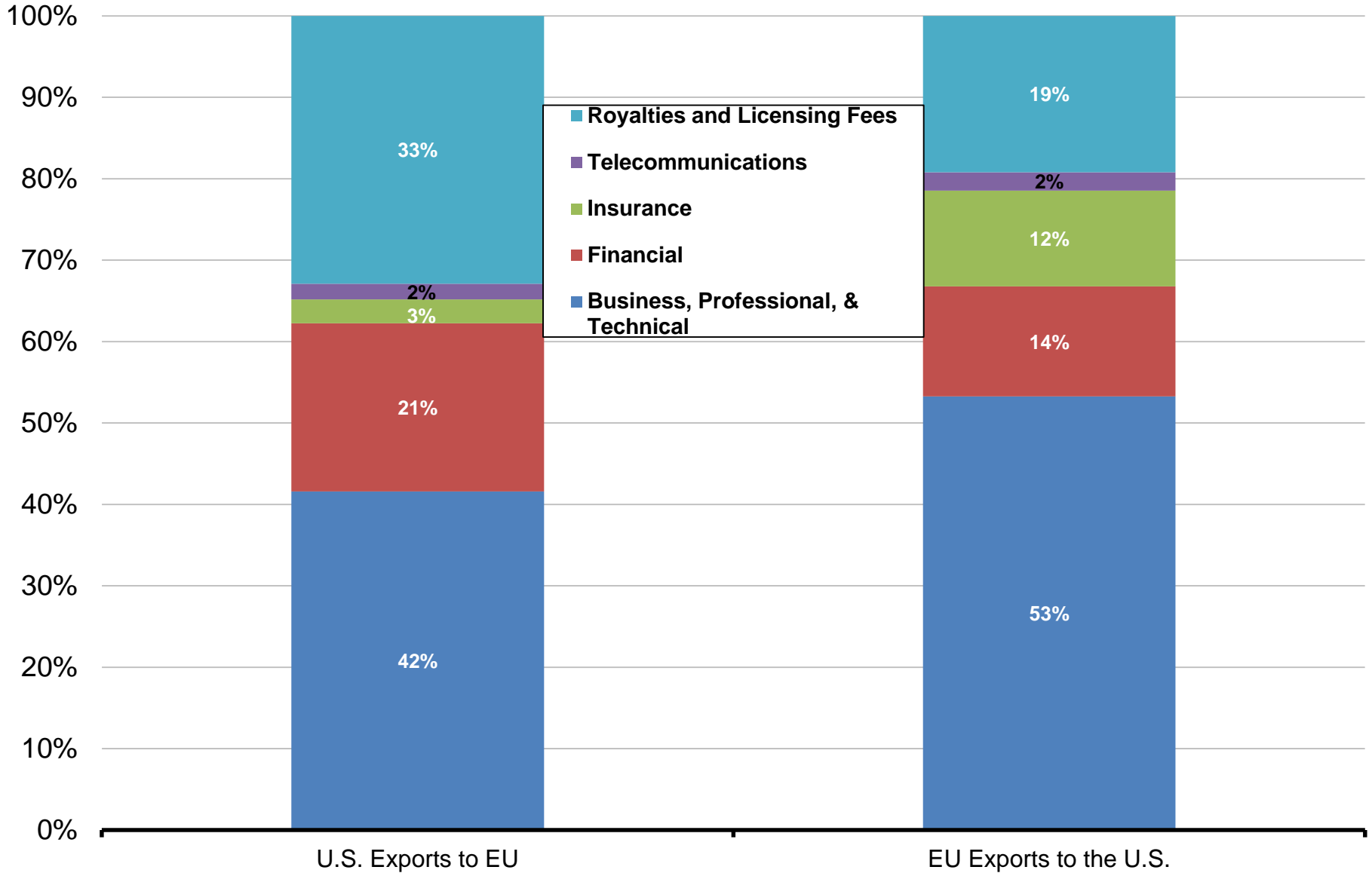
*Data for 2016 is estimate.

The Expanding Digital Frontier

TECHNOLOGIES

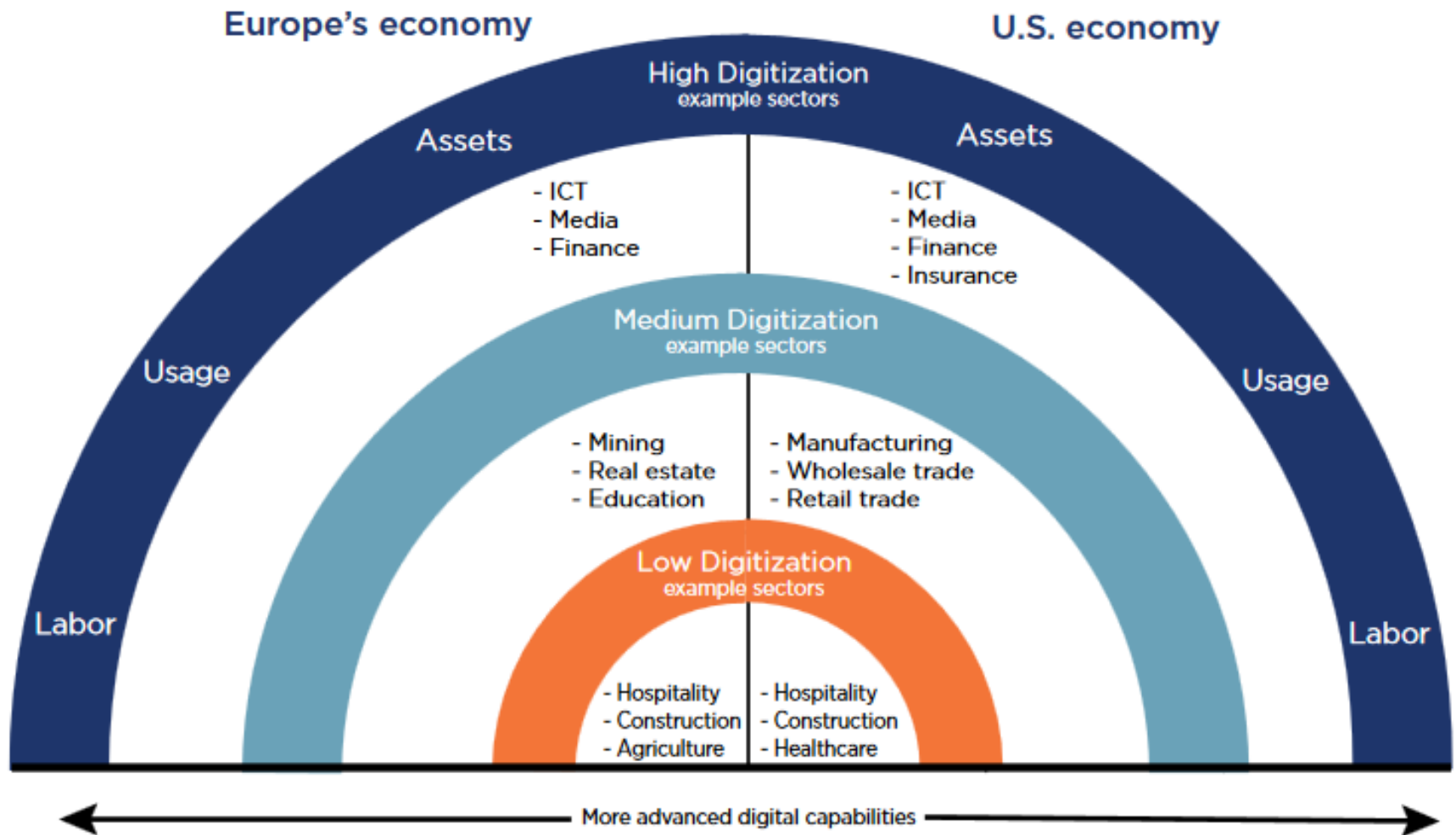


U.S. - EU Digitally-Enabled Services Trade by Sector, 2015



Sources: U.S. Trust Market Strategy Team®; U.S. Bureau of Economic Analysis.
Data as of December 2016.

Digital Leaders & Laggards in Europe & the United States



U.S. STATES: TOP AUSTRIAN GOODS EXPORT DESTINATIONS

(\$ millions, 2016)

1. California	1,398.7
2. South Carolina	1,081.8
3. Georgia	875.6
4. Virginia	805.1
5. Pennsylvania	741.9
6. New Jersey	705.0

GOODS:
TOP FIVE U.S. IMPORTS FROM AUSTRIA
(\$ Millions, 2016)

- **\$10.9 billion (6.3% Austrian global exports; 21.3% excl. EU)**
- **Related party trade: 22% of total U.S. imports from Austria**

1. Machinery and Transport Equipment	5,047.7
2. Chemicals and Related Products	2,233.9
3. Miscellaneous Manufactured Articles	1,241.1
4. Manufactured Goods by Material	1,217.1
5. Beverages and Tobacco	723.5

SERVICES:
TOP SIX U.S. IMPORTS FROM AUSTRIA
(\$ Millions, 2015)

- **\$1.6 billion total**

1. Travel (including education)	622.0
2. Transportation services	616.0
3. Other business services	143.0
4. Telecom, computer and information	60.0
5. Intellectual property	55.0
6. Financial services	32.0

**U.S. STATES:
TOP EXPORTERS OF GOODS TO AUSTRIA**

(\$ millions, 2016)

1. Kentucky	568.4
2. California	282.6
3. North Carolina	207.2
4. New York	164.5
5. Texas	103.9
6. Michigan	86.7

GOODS:

TOP FIVE U.S. EXPORTS TO AUSTRIA

- **Total: \$3.8 billion (2.3% global total; 10.5% excl. inner-EU)**
- **Related party trade: 66% of total U.S. exports to Austria**

1. Chemicals and Related Products	2,192.9
2. Machinery and Transport Equipment	702.6
3. Miscellaneous Manufactured Articles	355.9
4. Commodities and Transactions not classified elsewhere	228.2
5. Manufactured Goods by Material	155.6

SERVICES:
TOP FIVE EXPORTS TO AUSTRIA
(\$millions, 2015)

- **Total: \$1.6 billion**

1. Travel (including education)	664.0
2. Intellectual property	342.0
3. Transportation services	161.0
4. Financial services	161.0
5. Other business services	118.0

AUSTRIA – U.S. GLOBAL LINKAGES 2016

(\$ BILLIONS)

	<u>US in Austria</u>	<u>Austria in US</u>
Foreign Direct Investment	17.3	7.1
Total Assets of Affiliates	40.4	7.7
Foreign Affiliate Sales	22.7	8.3
Foreign Affiliate Income	2.6	0.6
Value Added of Affiliates	6.1	1.8
Affiliate Employees	46,184	16,974

The Transatlantic Triangle – US, UK, EU

- **US is Britain's largest export destination after the EU.**
- **Real driver of the British-American economy is investment.** 2015, U.S. FDI in UK record \$593.0 billion/UK FDI in US \$483.8 billion. Sales of US/UK affiliates > \$1.3 trillion.
- The UK accounted for 22% of overall global U.S. assets outside the United States.
- **U.S. affiliates employ almost 1.4 million workers in the UK while UK affiliates employ roughly 1.1 million Americans.**
- **British firms #1 source of onshored jobs in 25 of the 50 U.S. states in 2014.**
- US capital stock in UK (\$593 billion) 2x combined U.S. investment in South America, Middle East and Africa (\$244 billion). Total U.S. investment stock in China 13% of that in UK.
- **Many U.S. companies invest in the UK, however, to gain access to the much bigger EU Single Market. *U.S. affiliates based in the UK export more to the rest of Europe than U.S. affiliates based in China export to the rest of the world.***
- **EU is UK's most important market.** UK exports almost half of its goods and services to the EU — *twice* as much as to the US.
- **Vital that all three legs of the transatlantic stool remain strong and sturdy.**

U.S.- Based European Affiliates Account for Over Half of all U.S. Exports of Goods Shipped by U.S.-Based Foreign Affiliates

U.S. Exports of Goods Shipped by Affiliates [\$millions]

All Countries Total	425,205	
Europe	227,799	[54%]
UK	73,483	[17%]
Germany	45,014	[11%]
France	22,720	[5%]
Switzerland	20,510	[5%]
Netherlands	18,547	[4%]

TOP 5 Account for 42 %

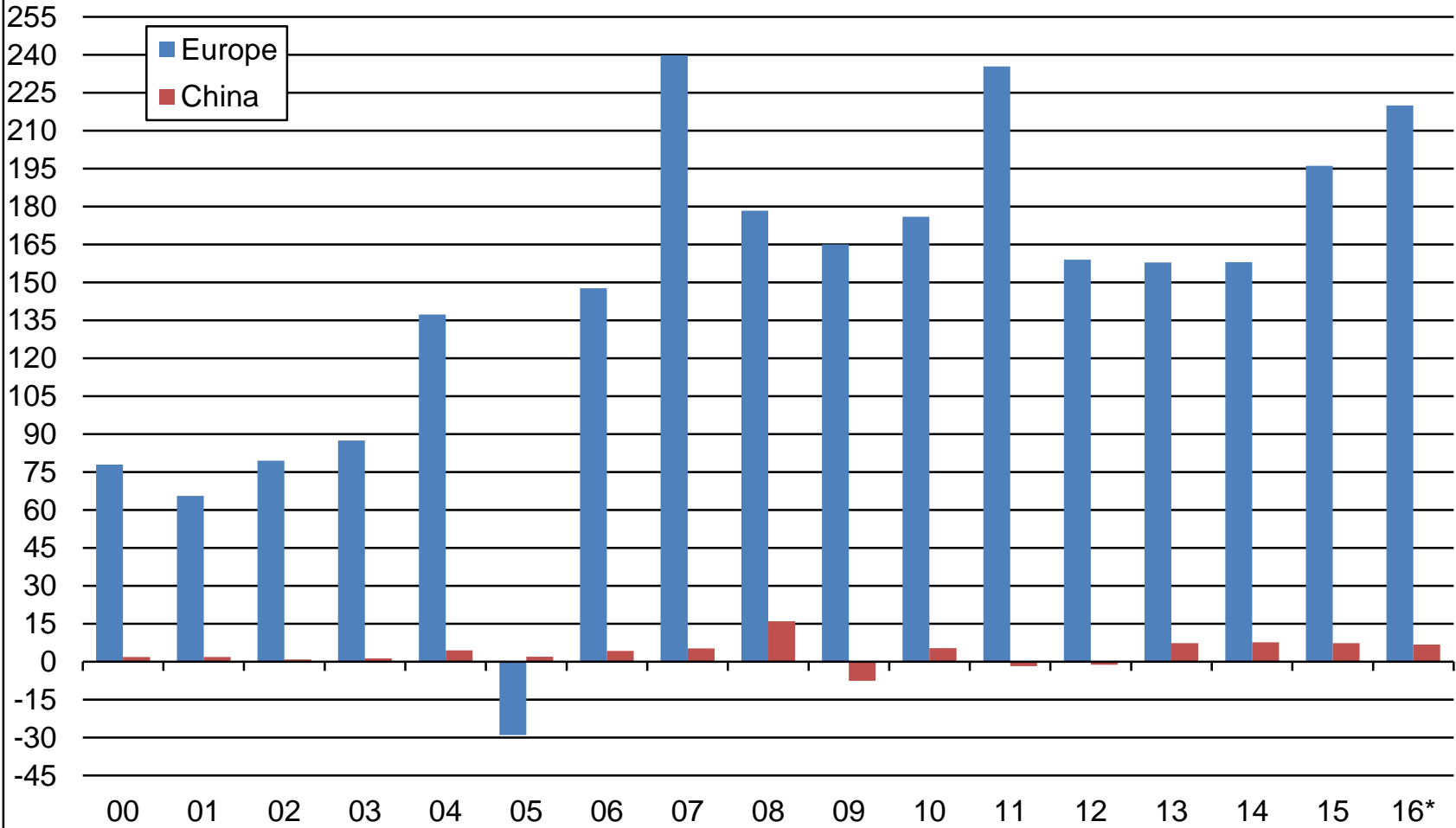
**U.S.-Based foreign affiliates account for 26% of all U.S. goods exports.
Europe is the destination for 68% of U.S. goods exports by U.S.-based
foreign affiliates**

Source – BEA.

Brexit Scenarios

- **UK/EU27: 3 sets of negotiations:**
 - Terms of divorce (UK pay; rights of citizens; N. Ireland; ECJ);
 - future relationship in trade, security, and other matters;
 - transitional arrangements.
- **Timetable:**
 - If sufficient progress, other negotiations start January 2018.
 - UK Brexit March 29, 2019
 - UK Stays in Customs Union and Single Market until Dec 31, 2020.
- **Models:**
- **Soft variants ruled out: “Norwegian”; EEA; “Swiss”; Customs Union**
- **Hard variants remaining:**
 - “Cliff Edge:” No deal, WTO terms apply
 - UK-EU FTA: CETA Plus
 - UK-EU Zero Tariff Agreement
 - UK-US FTA
 - UK-US-EU Tripartite Arrangements

Table 5. U.S. Foreign Direct Investment Flows to China vs. Europe
Billions of \$



*2016 estimate based on 1Q-3Q data.
Source: Bureau of Economic Analysis
Data as of December 2016.