The Transatlantic Economy 2018:

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

World GDP \( \uparrow \)

World Exports \( \uparrow \)

World Imports \( \uparrow \)

World FDI Inward Stock

World FDI Outward Stock

World M&A Sales

World M&A Purchases

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

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. Europe

Billions of $

Europe does not include flows to Russia.

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

Source: Bureau of Economic Analysis.

Data as of December 2016.
Europe, 46.7%

NAFTA (Canada/Mexico), 14.3%

South America, 6.9%

Asia and Pacific, 21.7%

Africa/Middle East, 4.2%

Other*, 6.1%

*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

- **U.S. Foreign Affiliate Sales in Europe**
- **Total U.S. Exports to Europe**

Source: Bureau of Economic Analysis.
Table 4. Sales of European Affiliates in the U.S. vs. U.S. Imports from Europe

- European Foreign Affiliate Sales in the U.S.
- Total U.S. Imports from Europe

Source: Bureau of Economic Analysis
U.S. - Europe Services Linkages

- U.S. Affiliates Services Supplied in Europe
- U.S. Service Exports to Europe

Source: Bureau of Economic Analysis.
Majority-owned bank and non-bank affiliates. Services supplied in Europe estimates for 2015.
Europe - U.S. Services Linkages

- **European Affiliates Services Supplied in the U.S.**
- **U.S. Service Imports from Europe**

Source: Bureau of Economic Analysis.

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

(Billions of $)

<table>
<thead>
<tr>
<th>Region</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>95.2</td>
<td>62.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>10.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Africa</td>
<td>6.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Other Western Hemisphere</td>
<td>51.6</td>
<td>32.9</td>
</tr>
<tr>
<td>South and Central America</td>
<td>37.3</td>
<td>16.1</td>
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<tr>
<td>Europe</td>
<td>184.5</td>
<td>113.9</td>
</tr>
<tr>
<td>Canada</td>
<td>28.7</td>
<td>15.0</td>
</tr>
</tbody>
</table>

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

Data as of January 2017.
## Top 20 US States Total Goods Exports to Europe, by Value ($Billion)

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

**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

Sources: GMSA Intelligence; McKinsey Global Institute; Author’s own estimates.
U.S. - EU Digitally-Enabled Services Trade by Sector, 2015

Data as of December 2016.
Digital Leaders & Laggards in Europe & the United States

Source: McKinsey Global Institute
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

<table>
<thead>
<tr>
<th>Service</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Travel (including education)</td>
<td>622.0</td>
</tr>
<tr>
<td>2. Transportation services</td>
<td>616.0</td>
</tr>
<tr>
<td>3. Other business services</td>
<td>143.0</td>
</tr>
<tr>
<td>4. Telecom, computer and information</td>
<td>60.0</td>
</tr>
<tr>
<td>5. Intellectual property</td>
<td>55.0</td>
</tr>
<tr>
<td>6. Financial services</td>
<td>32.0</td>
</tr>
</tbody>
</table>
U.S. STATES:
TOP EXPORTERS OF GOODS TO AUSTRIA

($ millions, 2016)

<table>
<thead>
<tr>
<th>State</th>
<th>Value ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kentucky</td>
<td>568.4</td>
</tr>
<tr>
<td>California</td>
<td>282.6</td>
</tr>
<tr>
<td>North Carolina</td>
<td>207.2</td>
</tr>
<tr>
<td>New York</td>
<td>164.5</td>
</tr>
<tr>
<td>Texas</td>
<td>103.9</td>
</tr>
<tr>
<td>Michigan</td>
<td>86.7</td>
</tr>
</tbody>
</table>
**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

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Chemicals and Related Products</td>
<td>2,192.9</td>
</tr>
<tr>
<td>2.</td>
<td>Machinery and Transport Equipment</td>
<td>702.6</td>
</tr>
<tr>
<td>3.</td>
<td>Miscellaneous Manufactured Articles</td>
<td>355.9</td>
</tr>
<tr>
<td>4.</td>
<td>Commodities and Transactions not classified elsewhere</td>
<td>228.2</td>
</tr>
<tr>
<td>5.</td>
<td>Manufactured Goods by Material</td>
<td>155.6</td>
</tr>
</tbody>
</table>
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)

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

<table>
<thead>
<tr>
<th>All Countries Total</th>
<th>425,205</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>227,799 [54%]</td>
</tr>
<tr>
<td>UK</td>
<td>73,483 [17%]</td>
</tr>
<tr>
<td>Germany</td>
<td>45,014 [11%]</td>
</tr>
<tr>
<td>France</td>
<td>22,720 [5%]</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20,510 [5%]</td>
</tr>
<tr>
<td>Netherlands</td>
<td>18,547 [4%]</td>
</tr>
</tbody>
</table>

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

• **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

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe</th>
<th>China</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td></td>
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<td>2016*</td>
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</tbody>
</table>

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