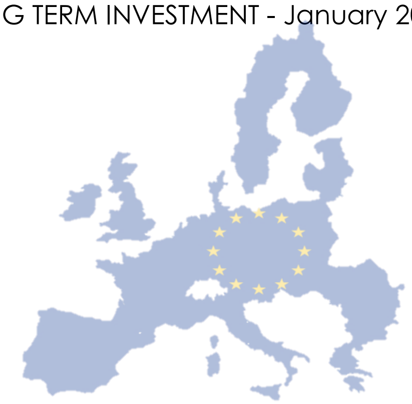
CONFRONTATIONS EUROPE



THE CASE FOR INVESTING IN EUROPE

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In November, AM Cham EU, the American Chamber of Commerce to the European Union, hosted an event in Brussels as part of the first Invest Week dedicated to the report by Joseph Quinlan from John Hopkins University, exploring the reasons why Europe remains an attractive destination for American investment and continues to matter. And this despite the change of administration in the US and the predicted strong growth (+3%) promised by Donald Trump compared with the EU.

Europe still attracts more than half of US aggregate foreign direct investment (FDI) outflows. The region's share of US FDI has averaged 60% of the total this decade, up slightly from previous periods. The more profitable US affiliates are in Europe and their success is hugely important to the US economy. The creation of the Single Market in 1992 helped drive this process: between 1990 and 2000, revenue generated by US affiliates in Europe doubled, rising from $33 billion to $66 billion. Between 2001 and 2015, global profits soared from $54 billion to $231 billion with just a modest annual decline (-3.7%).

But can we suppose, from a long-term perspective, that Corporate America will continue investing in Europe? The elections in the US have created somewhat of a shock, and **many worry about European cohesion and its strategic capacity**. Joseph Quinlan believes that American companies still consider Europe to be a primary market. While both the United States and China loom large in the hierarchy of the global economy, the European Union remains one of the biggest economies in the world, a fact often overlooked or ignored. According to estimates made by the International Monetary Fund, the European Union (plus Norway, Switzerland and Iceland) accounted for 23.7% of world output in 2015, slightly less than America's share (24.5%) but well in excess of China (15.6%) and India 3%.

Joseph Quinlan believes that what started out as a loosely configured market of six nations is now an economic behemoth of 28 Member States. In other words, the sum of Europe's parts is greater than the world's other economic entities. Europe remains the preferred destination of US firms, despite US FDI flows to Caribbean offshore financial centres. This runs counter to the fashionable narrative that Corporate America prefers to invest in the BRICs. Real growth has downshifted, notably in China, which faces strong challenges in renewing its economic model. Brazil and Russia are in recession. Investing in these countries remains very difficult, due to poor infrastructure, a dearth of human capital, corruption and policy headwinds (foreign exchange controls, tax preferences favouring local firms, etc.). Yet these are integrated markets with the same currency and strong prospects.

The Quinlan report dresses an optimistic picture, underlining the fact that Europe is on the rebound, real growth is expected to average 1.5–2% and unemployment should trend lower over the near term. Ultimately, **US firms investing abroad are more interested in accessing wealthy consumers and skilled workers, and Europe remains a critical source of global profit.** On a comparative basis, revenue generated by US firms in Europe in 2015 exceeded that in Latin America ($70 billion) and Asia ($63 billion). There is still a huge premium in investing in Europe, despite sluggish growth. This said, the Transatlantic Trade and Investment Partnership is still under negotiation. And the outcome will prove critical.