European American Investment Council (EAIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

3rd Quarter 2017

February 2018

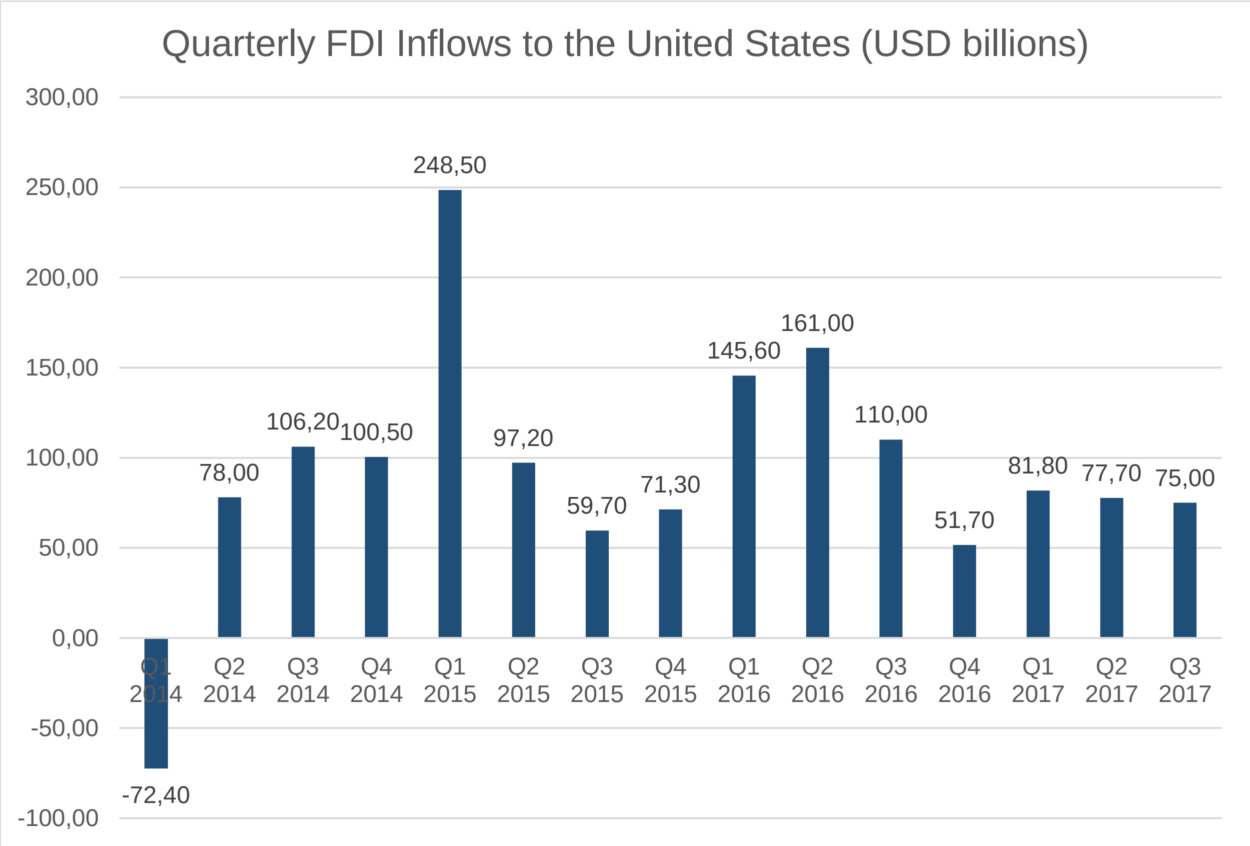
The European American Investment Council (EAIC) is the official European representative of selected counties, cities and chambers of commerce from over 20 U.S. states. It is our mission to promote transatlantic trade and investment. To that end, the EAIC bridges the gap between Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

With our newly introduced quarterly, the EAIC aims to update the European American business community regularly on the newest developments in Foreign Direct Investment (FDI), with up-to-date data and analysis on a range of transatlantic FDI statistics, from overall investments to a breakdown of key manufacturing industries and European source-countries. Concluding the analysis is a more in-depth profile of a spotlight country from Europe with exceptional FDI potential.

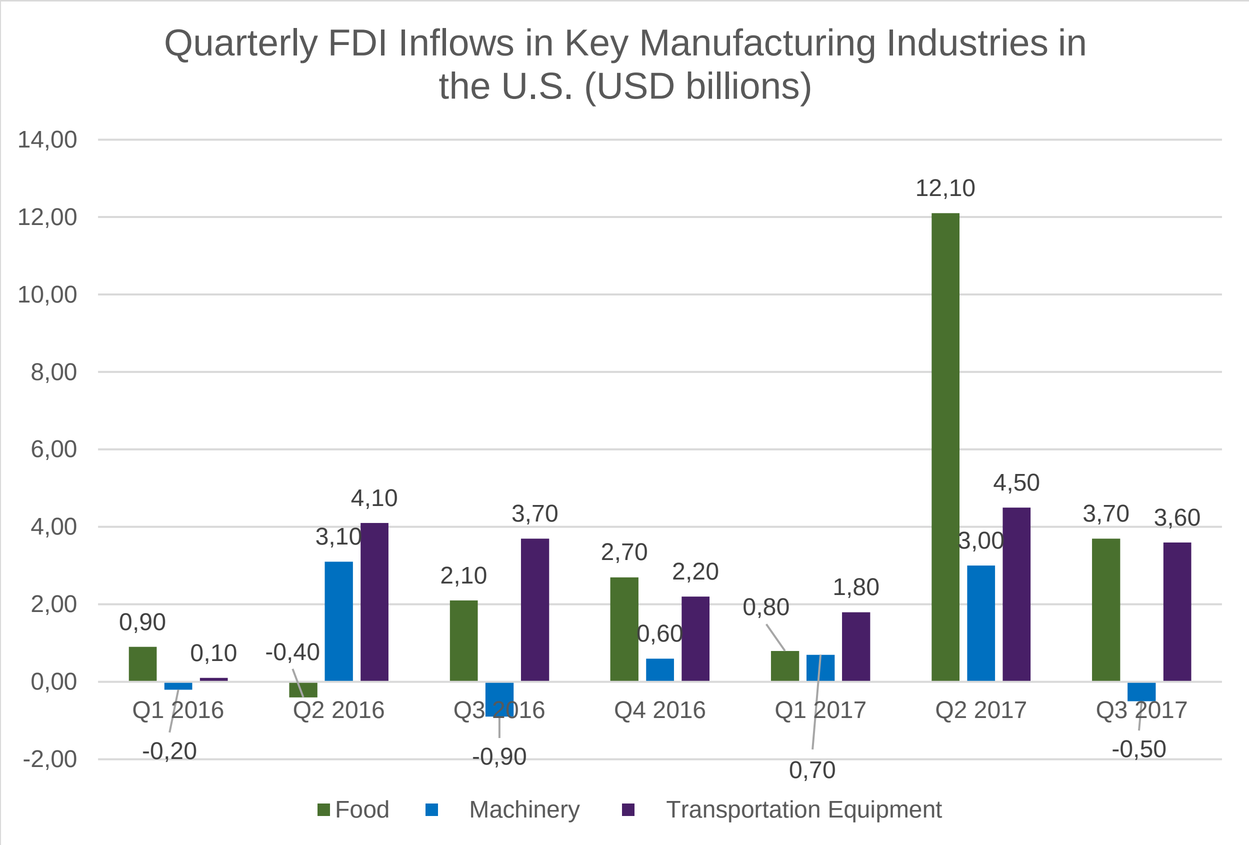
The EAIC aspires to combine relevant country data with its own experience of working at the frontier of transatlantic investments: it regularly visits key markets in Europe that have become drivers of FDI in the United States as part of its Delegation Trips offered exclusively to its members. These trips feature meetings with decision-makers from companies looking to invest in the United States, as well as key multipliers from diplomatic missions and industry associations. To find out more, please click here.

Foreign Direct Investment in the United States: Key Figures

- FDI flows into the United States fell slightly on a quarter-on-quarter basis from USD 77.7 billion in the second quarter to 75.0 billion in the third quarter 2017.
- After the booming years of 2015 and 2016 with average quarterly inflows of over USD 100 billion, FDI inflows into the United States have returned to historic averages with around USD 58.6 billion up in the first three quarters of 2017.
- Total FDI in the U.S. amounted to USD 476.7 billion in 2015 and 468.3 billion in 2016; so far, total FDI in the three quarters in 2017 amounts to USD 234.5 billion, a year-on-year decrease of approximately 50 percent.
- According to UNCTAD, the return to historic averages of FDI in the U.S. after the outliers of 2015 and 2016 is mirrored in other developed countries as well and bespeaks a general lower level of FDI in developed economies in 2017. In the U.S., the decline was especially driven by a decline in inflows from offshore financial centers. It is worth noting that, while M&A transactions declined by over 20 percent in 2017, greenfield investments in the United States increased by 53 percent!*

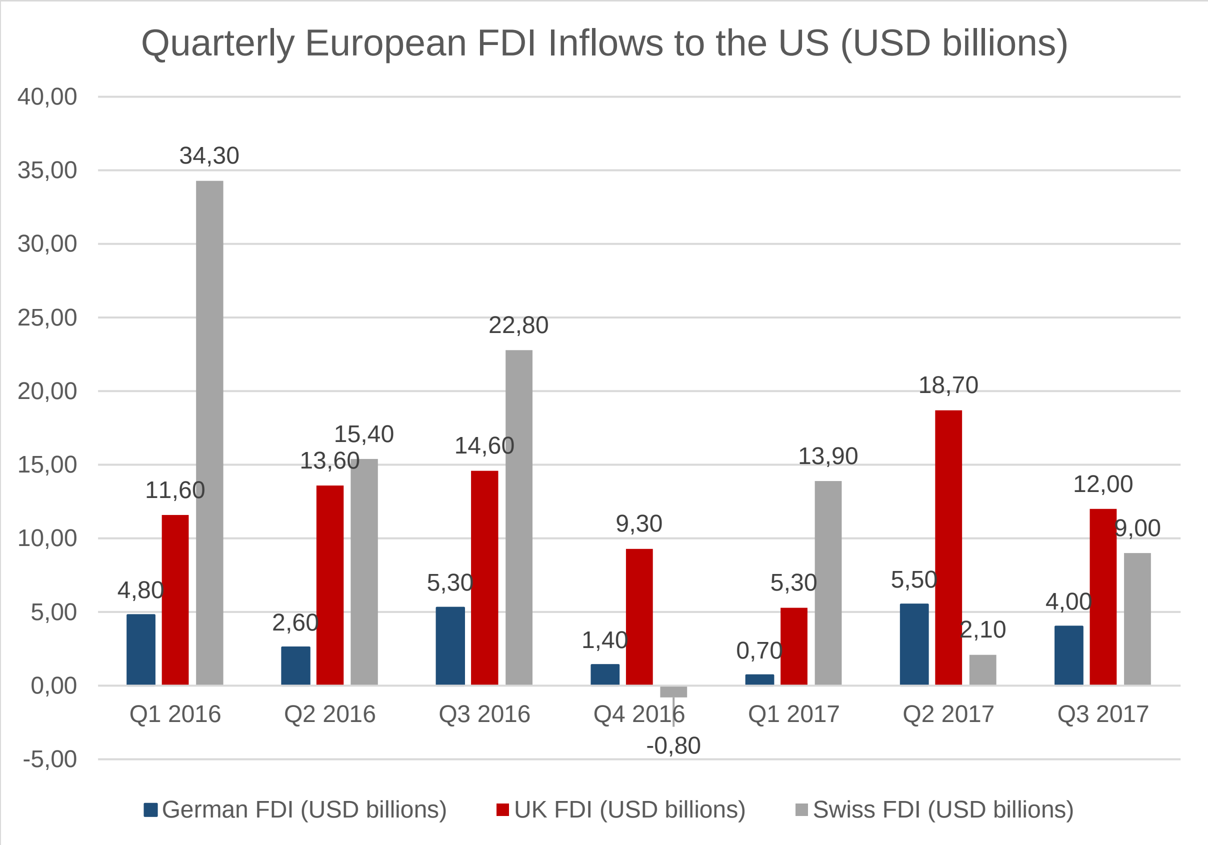


Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Third Quarter 2017, December 2017.
*UNCTAD Investment Trends Monitor, January 2018



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Third Quarter 2017, December 2017.

- In the second quarter of 2017, the Food Processing sector (NAICS subsector of Manufacturing) saw a significant increase in FDI, with a total of USD 12 billion; this constitutes a deviation of 43 percent from the average FDI in 2016.
- The Transportation Equipment manufacturing subsector (including final vehicle assembly) has seen a steady inflow of FDI, with total numbers USD 14.2 billion in 2016 and 24.1 in the first three quarters of 2017, underlining the continuous trends of investments in the U.S. automotive industry, which the EAIC expects to continue through 2018.
- While the Machinery sector, comprising most advanced manufacturing for the construction of products designed to employ mechanical force, saw lower levels of FDI in 2016 and 2017, total investment rose from USD 2.6 billion to 3.2 billion until the fall 2017.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Third Quarter 2017, December 2017.

Above, we have highlighted the most recent FDI data for three key European markets: Germany, the United Kingdom, and Switzerland.

- German and British FDI flows into the United States have been consistent in both 2016 and 2017, after a significantly larger volume of investment inflows in 2015. For Germany, the average of USD 3.5 billion of quarterly investments was mirrored in the first three quarters of 2017 with USD 3.4 billion, while the UK invested a quarterly average of around USD 12 billion in both 2016 and 2017.
- Switzerland stands out with a quarterly average of USD 17.9 billion in 2016, which fell by 50 percent to a still considerably high USD 8.3 billion in the first quarters of 2017. On the following page, we provide an in-depth analysis of what drives these significant investment volumes from Switzerland to the United States.

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EAIC Source-Country Spotlight: Switzerland

Despite a limited population of 8 million inhabitants, four different national languages (German, French, Italian and Romansh) and a non-EU member status, Switzerland maintains a significant impact on the global economy that goes beyond financial services.

As of 2016, Switzerland ranks number seven among the largest source countries for Foreign Direct Investment (FDI) in the United States, with a direct investment position of roughly USD 200 billion. With about 468,200 people employed by U.S. affiliates of Swiss MNEs, an impact of Swiss FDI on the U.S. economy can be identified that goes beyond mergers and acquisitions, as U.S. subsidiaries of Swiss companies have invested USD 9.7 billion in Research & Development (R&D) and expanded U.S. exports by more than USD 16 billion in 2015. Nearly half of all Swiss FDI in the U.S. was invested in manufacturing, a trend largely driven by Switzerland's key industrial sectors:

First, machinery engineering is the heart of Switzerland's industrial capacity, ranking second only to consumer products among announced Swiss FDI projects in the United States. Key products include pumping solutions, generators, engines, processing technologies, elevator systems or wire-processing machines. Part of their success is the dual apprenticeship education that provides apprentices with both theoretical and practical insights similar to the education of skilled workers in countries like Germany and Austria. The large number of Original Equipment Manufacturers with fewer than 500 employees which specialize in ambitious products in metal or plastics processing, electric or electronic components is another feature that these three German speaking countries share.

Second, pharma and chemicals have traditionally been strong sectors of the Swiss economy and continue to be key industries. Products of companies like Novartis, Roche, Actelion, Cilag, Vifor, among others, can be found in pharmacies around the world. What is currently driving the industry are innovations in bio-technology. By now there are severall bio-technology clusters in Switzerland (Greater Zurich Area, Bio Valley Basel, BioAlps, Biopolo Ticino). They promote innovations with SMEs which have not internationalized yet.

Lastly, medical engineering as well as the precision goods industry are two industries that stand out. On top of the world leading players of Switzerland's traditional watchmaking industry, companies like Kistler Instrumente AG (measurement devices), Mikron (machining and automation), CEDES Group (sensor systems for elevator systems, security and automation industry with U.S. operations in Monroe, CT and Denver, CO) are also crucial building blocks of the strong Swiss precision goods industry. A motor for innovations that is a decisive advantage for Swiss manufacturers of all industries are the international highly competitive Swiss universities such as the top-ranking ETH Zurich.

One of the key driving factors for Swiss FDI has been the combination of a small domestic market, which makes international transactions imperative, paired with a relatively strong Swiss franc that makes export less competitive. The flipside of a strong franc versus a currently depreciating U.S. dollar is that it makes investments in the United States more attractive, both through lower local production costs (i.e. wages) and lower capital expenditure.

Source: Bureau of Economic Analysis (BEA) 2017; SelectUSA 2018.

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