Transatlantic Business & Investment Council (TBIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

4th Quarter 2023
[Data for Q2 2023]

The Transatlantic Business & Investment Council (TBIC) is the official European representative for selected counties, cities, and corporations from over 30 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, TBIC bridges the gap between U.S. Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

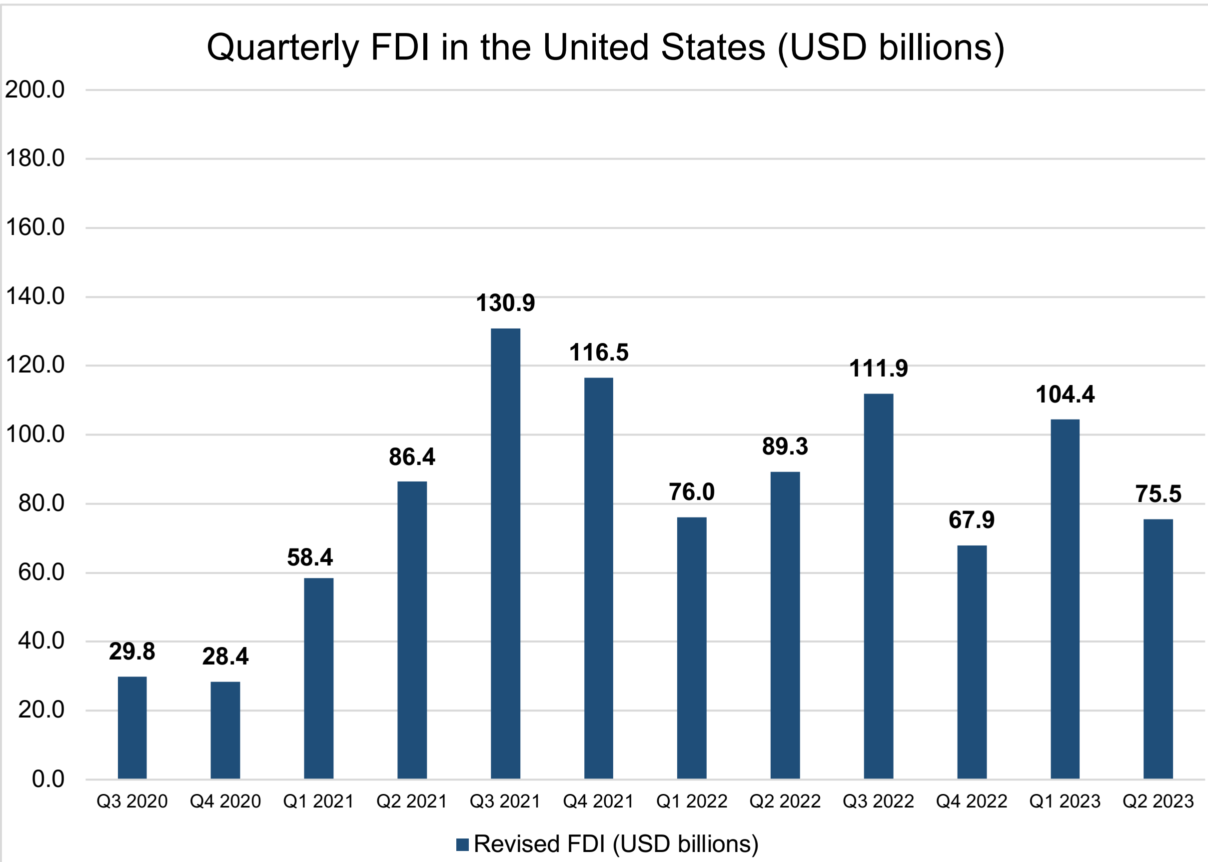
This latest issue of our quarterly features an analysis of the newly published data for Q2 2023 and revised data for the previous quarters, as recently released by the U.S. Bureau of Economic Analysis (BEA). With $75.5 billion worth of investment, second quarter FDI inflows decreased from inflows in Q1 2023, which were revised lower to $104.4 billion. Of the $75.5 billion in Q2 2023 FDI inflows, approximately $15.8 billion were in the manufacturing sector, or roughly 21%.

Within manufacturing, slight decreases in FDI inflows were observed from Q1 2023 to Q2 2023 in the food, machinery and transportation equipment sectors. The machinery sector experienced a noticeable decrease in investment from $5.2 billion in Q1 2023 to $3.9 billion in Q2 2023. Meanwhile, investments in the food and transportation equipment sectors decreased by approximately $400 million and $700 million, respectively, in Q2 2023.

This issue includes a time series focusing on Italian foreign direct investment into the United States. Italy's stock of FDI in the United States amounted to $46.2 billion in 2022. Italy is a core EU economy and its economic strength lies in its strong services, manufacturing and tourism sectors, though especially manufacturing in the FoodTech and automobile sectors is especially represented in FDI activities. Italy accounted for 10% of Europe's direct investment into the United States in 2022, and its economy occupies the third-place spot within the EU (between France and Spain), with a GDP of roughly $2.1 trillion. Two-thirds is generated by its strong services sector and 25% in industry. Its industrial sector is characterized by several features. Geographically, there is a sharp disparity in economic activity and indeed productivity, between North and South Italy, with Lombardy (in the North) commanding a GDP per capita 27% above the EU average, and Calabria (in the South) being 44% below that same average. This is reflected in the fact that Italian industry is concentrated in the North, where its manufacturing is concentrated. Furthermore, despite the prevalence of manufacturing businesses and its importance for the Italian economy, these businesses are typically small to medium-sized companies (SMEs); they account for 80% of employment, which is higher than the U.S. (47.1%), the EU average (40%), and both France and Germany (25%). SMEs also account for 70% of value-adding economic activities, which exceeds that of the aforementioned economies, as well. With its focus on the industrial 'Internet of Things', its competitive business landscape, and its already-significant FDI into the U.S., the Italian economy has the potential to contribute greatly to the advanced manufacturing industry in the U.S.

In additional to the focus on industry in Italy, this issue also analyzes Berlin's ascent as a European tech hub and the dynamic MedTech sector in the German Rhineland. To witness part of this dynamism first-hand, please feel free to reach out regarding future visits to the MEDICA tradeshow.

Foreign Direct Investment in the United States: Key Figures

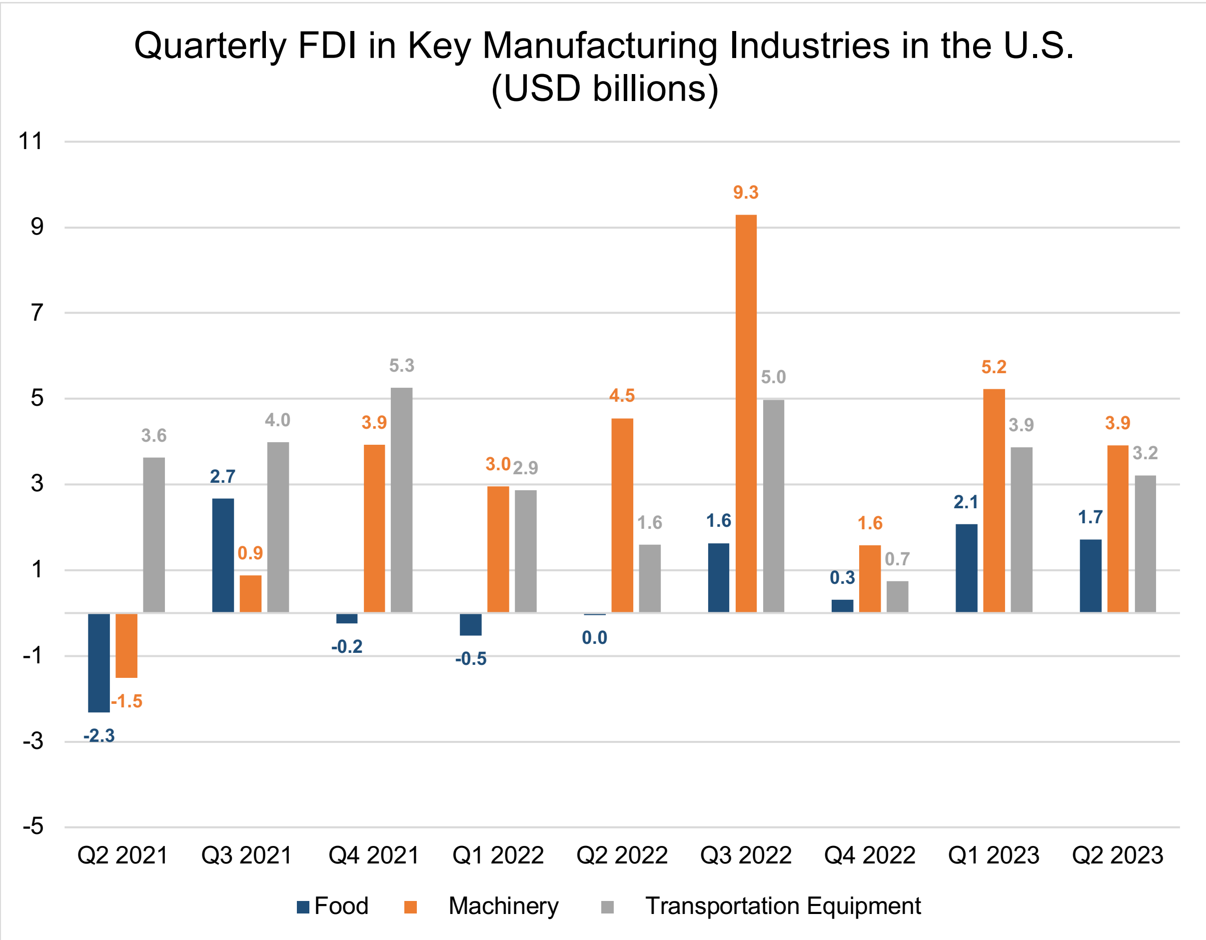


Source: Bureau of Economic Analysis (BEA), U.S. International Transactions, Second Quarter 2023, December 2023.

In the recently published data from the Bureau of Economic Analysis, the FDI inflows for the first quarter of 2023 were revised downward from $109.3 to $104.4 billion.

FDI data for the second quarter of 2023 indicate an inward investment volume of $75.5 billion, a decrease of $28.9 billion, which is slightly below the average quarterly figures since Q3 and Q4 of 2020. These figures reflect a continued stability of investment, and although slightly less than the preceding two years' Q2 FDI figures, reflect a robust interest in investing into the American economy. Moreover, an outperformance of economic growth and more competitive inflation rate, are contributing factors to confidence in the American economy. Consumer and investor confidence are gradually being restored, from the downturn of the COVID-19 pandemic.

U.S. FDI Flows by Key Industry Sector



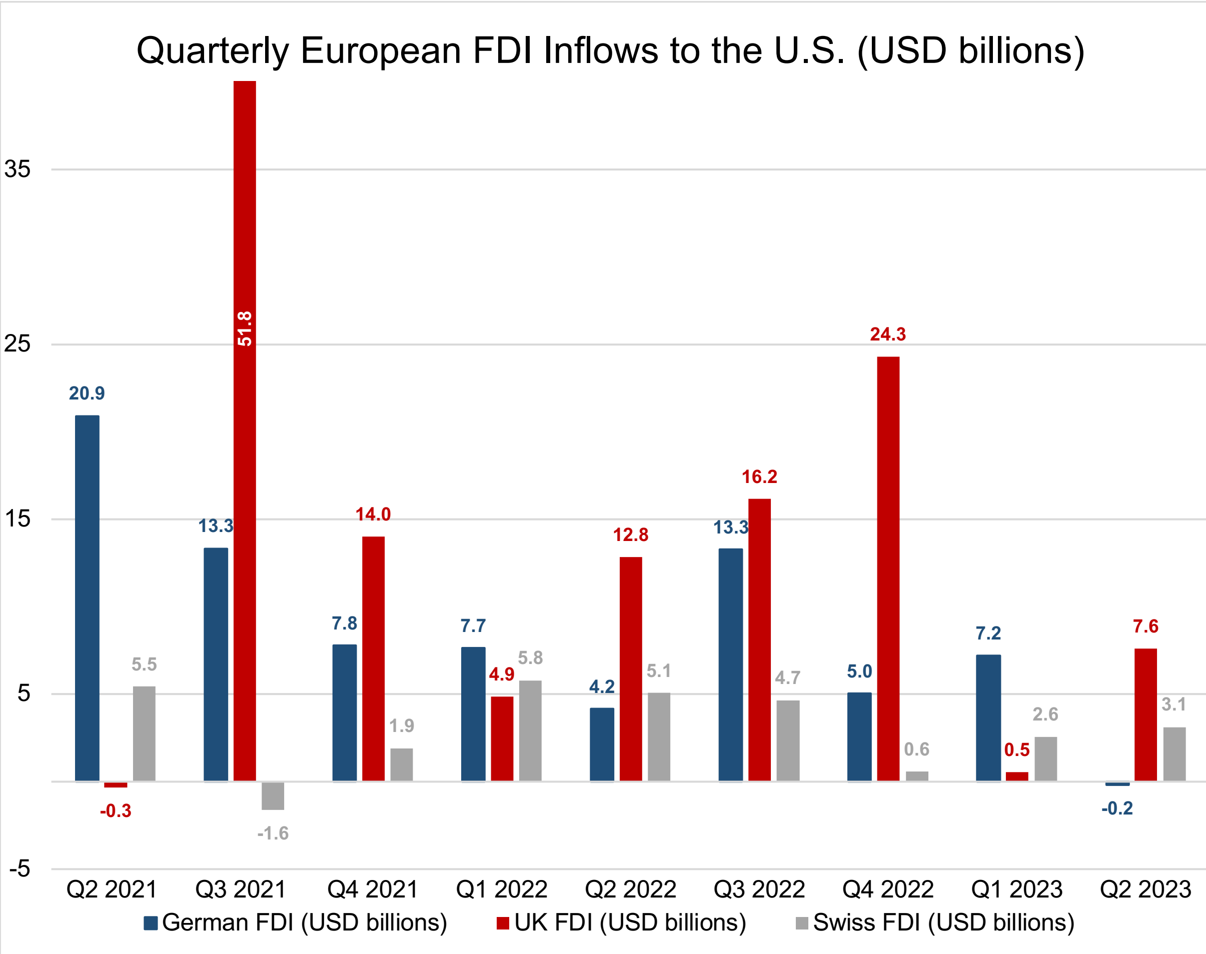
Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2023.

The newly released BEA data for Q2 2023 shows a decrease in net FDI flows in the food, machinery, and transportation equipment sectors, compared to Q1 2023. In Q2 2023, investment flows in the food sector fell by roughly $400 million from the previous quarter. This pattern can also be seen as a more moderate decrease in investment flows in the machinery sector by $1.3 billion, as well as a $700 million decrease in the transportation equipment sector, when compared to Q1 2023.

The machinery sector continues its run as the sector contributing to most to the inward flow of FDI, the difference between machinery and transportation equipment being decreased nonetheless, from $1.3 billion to $700 million. The relative difference has remained quite similar though, indicating that both sectors could be following the same trends.

The Food sector has seen a decrease in investment too, but the $1.7 billion nonetheless is the third-strongest figure set by the sector, in two years – Q1 2023 being the second strongest. It thus maintains a robust momentum, and the decrease should be seen in the light of an overall positive trajectory.

U.S. FDI Inflows by Key European Source Countries



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2023.

Q2 2023 data reflects diverse results for three major European sources of FDI into the U.S., namely, Germany, the United Kingdom, and Switzerland. German FDI into the U.S. fell drastically and reached a negative value of approximately $-200 million, when compared to the previous quarter of $7.2 billion. UK FDI experienced a strong increase from $500 million to $7.6 billion in Q2 2023. Finally, Swiss FDI remained relatively consistent from $2.6 billion to $3.2 billion, according to the most recent figures.

Q2 2023 highlights the polar shift of the UK would be the largest source of FDI observed of these three countries. Germany took the UK's a position as the smallest source of FDI for the quarter. While the magnitude of negative German FDI into the U.S. is not very significant, this has not occurred since Q1 2013. Meanwhile, Switzerland's FDI inflow of $3.1 billion, is consistent with the levels observed throughout most of 2021 and 2022.

Overall, the figures from Q2 2023 reflect a low level of FDI from these three European countries, as compared to previous quarters; in Q2 2023, only a cumulative $10.5 billion was invested by these three European countries, which is similar to Q1 2023 figure of $10.3 billion invested across the board.

Historical Series – Italian FDI Inflows to the U.S.

Italy boasts a rich history of FDI into the U.S., with a legacy dating back several decades. Italian investors have been drawn to the U.S. market for its countless opportunities, stable economic environment, and skilled workforce. In fact, Italian states, that were later to form the Kingdom of Italy at the unification of the peninsula, were amongst the first to recognize the independence of the U.S.

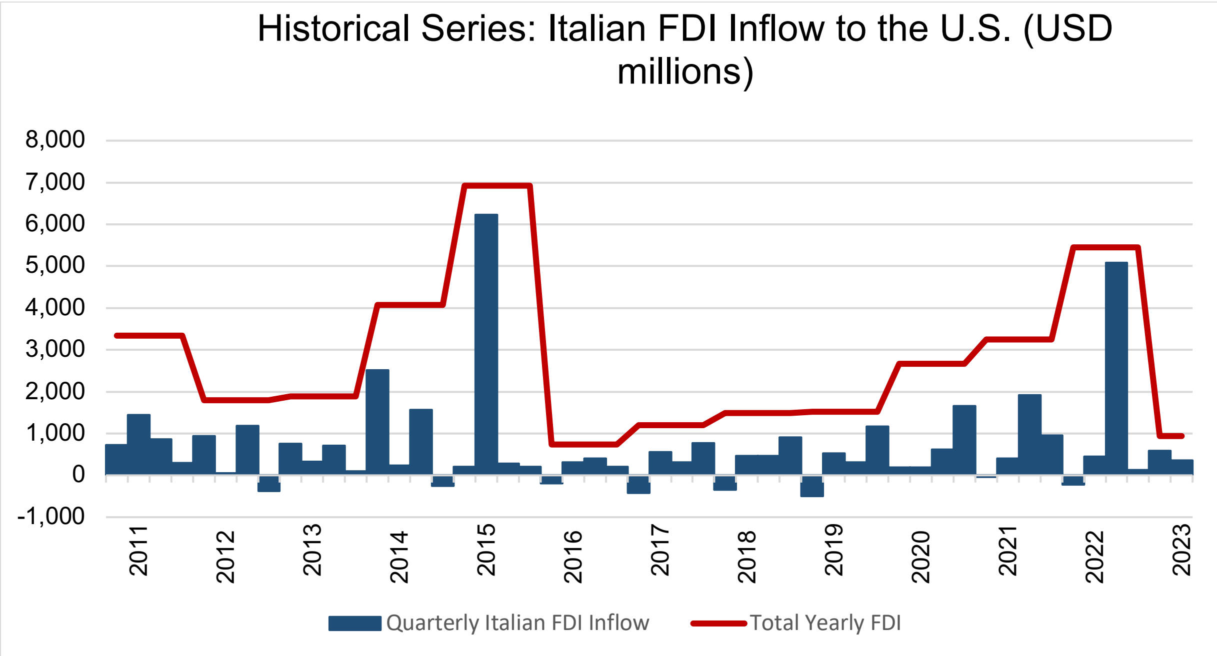
Among the notable Italian investments in the U.S. are those made by companies such as Fiat Chrysler Automobiles (FCA), Luxottica, and Eni. FCA, a global automotive giant, has made significant investments in the U.S. automotive industry, including the acquisition of Chrysler in 2014. In 2018, FCA invested more than $1 billion into its Michigan production plant and is set to ramp up its production of an electric version of its iconic Fiat 500, in 2024. Luxottica, a world leader in eyewear, has established a strong retail presence in the U.S., with brands like Ray-Ban and Oakley, with a $250 million investment into the U.S. market in 2013. Eni, a major energy company, has invested in various sectors in the U.S., including oil and gas exploration and renewable energy projects. Italy, famed for its culinary tradition, has also produced such companies as Ferrero, Lavazza, and Barilla, which all have production plants in the U.S.

Italian FDI in the U.S. has grown steadily over the years, with Italian companies investing in diverse industries such as automotive, fashion, energy, and manufacturing. These investments have contributed to strengthening bilateral trade relations between Italy and the U.S.

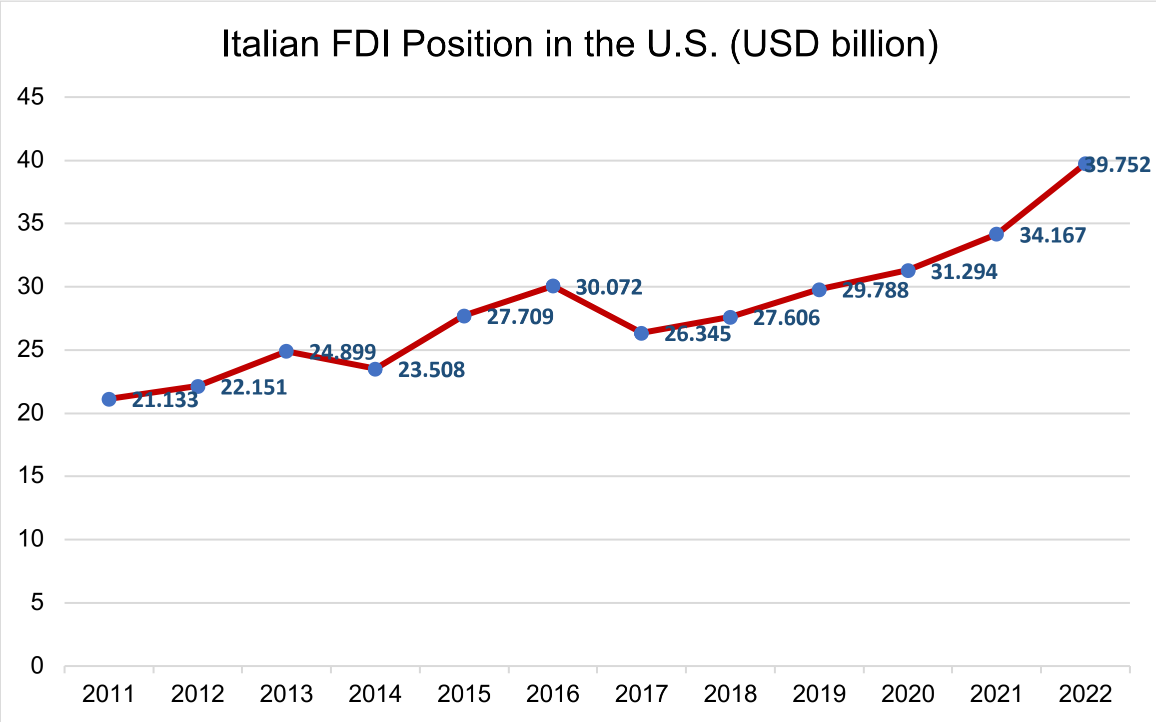
Italy ranks as one of the U.S.'s important trading partners, with Italian companies actively investing in R&D initiatives and forging strategic partnerships with American firms. In 2021, majority Italian-owned firms spent $314 million in R&D, had almost 100 thousand employees, and produced $2.5 billion in U.S. exports. Many Italian companies have established their U.S. headquarters or production facilities to capitalize on the country's innovative ecosystem and access to capital markets. That is why companies like Eni, Terna, and Pelliconi have in recent years joined innovation hubs in Silicon Valley.

Geographically, Italian-U.S. trade is spread across various regions, with a concentration in areas conducive to the industries in which Italian companies operate. The Northeast, particularly New York and New Jersey, has attracted investments from Italian firms in the sectors such as fashion, finance, and technology. This division in economic activities is also evident in Italy itself, as previously mentioned – in fact, the domestic geographic economic divide is the most pronounced in all of Europe, with the e.g., Lombardy (in the North) having a GDP per capita 27% above the EU average, and Calabria (in the South) having a GDP per capita 44% below the average. This has historically been due to transportation costs and proximity to foreign markets, becoming entrenched trends since.

Italy's automotive and fashion sectors have had and continue to have a significant contribution to transatlantic trade and investment, fostering collaboration and innovation between Italian and American companies.



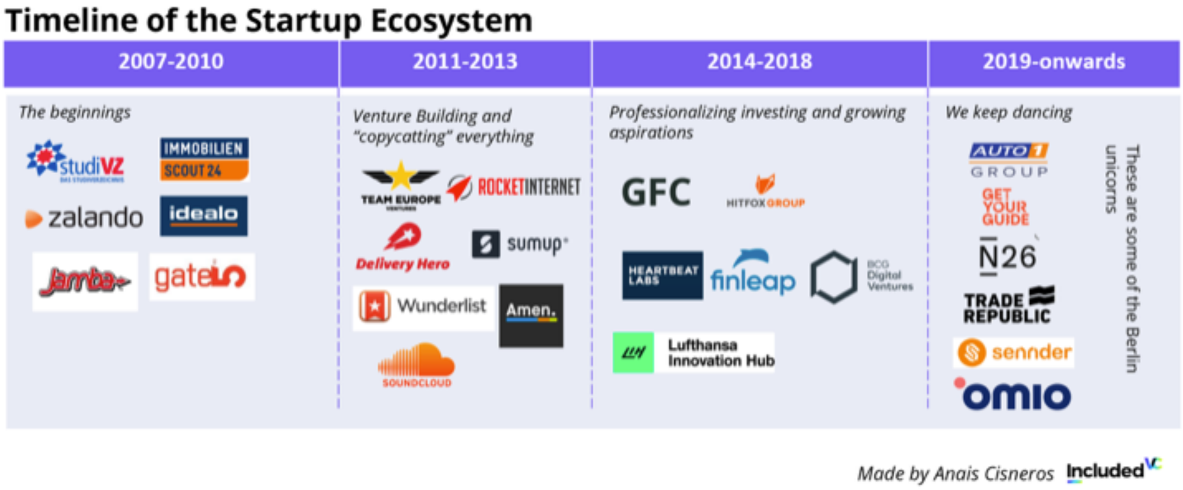
Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2023.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, December 2023.

Spotlight Article: Tech Hub Berlin, Germany & the MedTech Hub in the German Rhineland – Insights for American EDOs

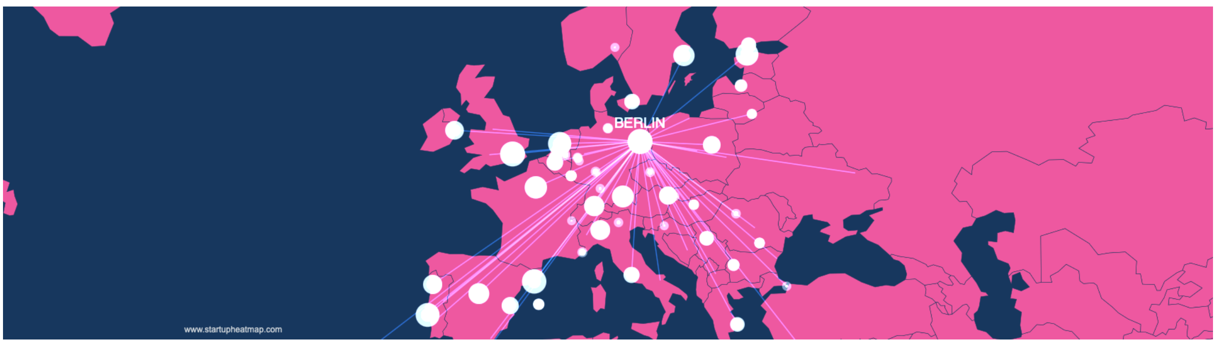
Berlin's ascension to a leading tech hub in Europe is not only marked by its popularity among founders but also by its impressive financial prowess. Since 2016, the Startup Heatmap Europe Survey has tracked the attractiveness of cities for tech founders, with Berlin consistently ranking among the top choices. Alongside London, Berlin has maintained its position with 37% of founders selecting it as their potential next destination. Furthermore, Berlin leads the German startup investment scene. With nearly every second euro invested: 4.9€ billion from 9.9€ billion. Promising startups like Soundcloud, Mister Spex, Zalando, Delivery Hero, Home24, and HelloFresh have emerged in recent years. Berlin's startup scene is a key player in the country's tech ecosystem and overall has created 80,000 jobs.



Source: [Anais Cisneros]

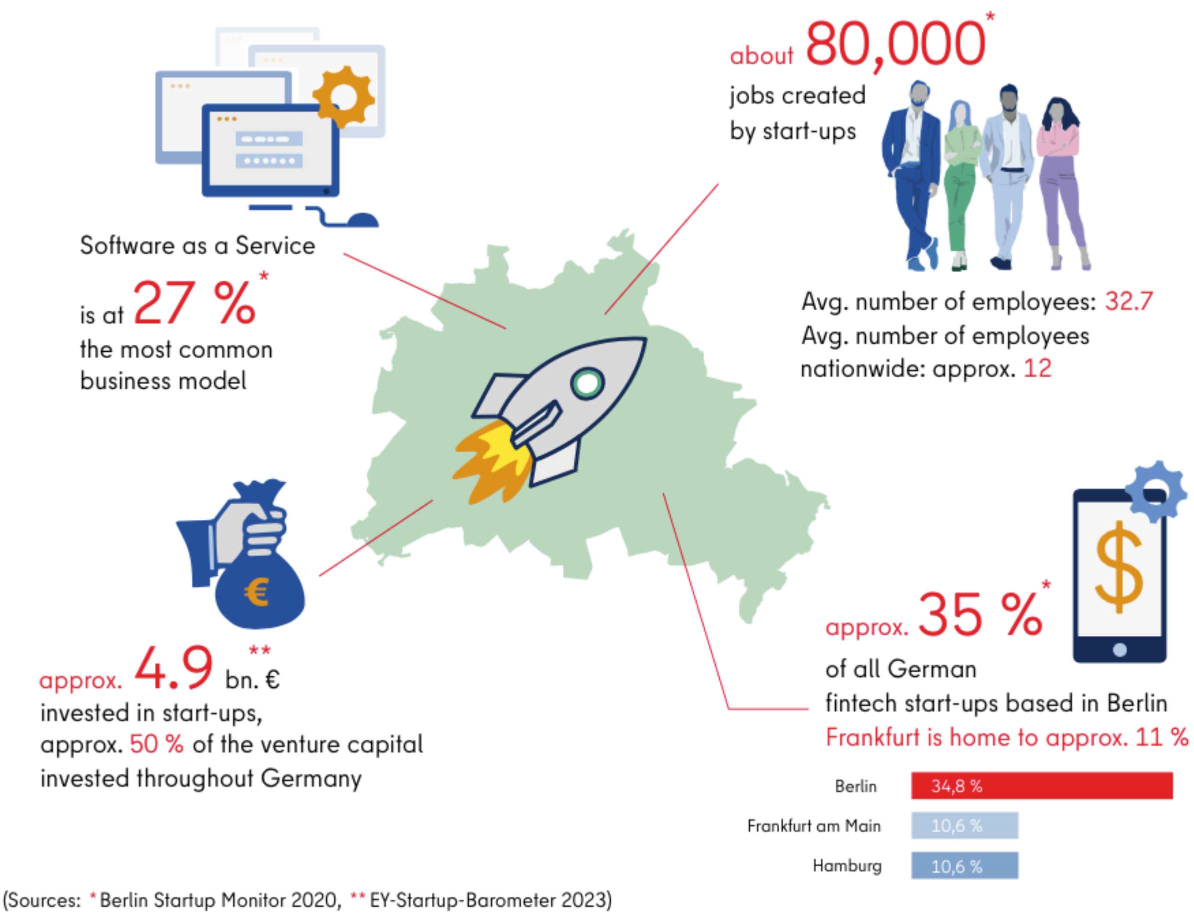
A study by [Professor Dr. Hannes Rothe et. al. (2022)] highlights the potential of research-intensive tech startups, particularly in biotech and health. Berlin's ongoing efforts in university-affiliated startup support, bolstered by initiatives like the [Berlin University Alliance and the Science & Startups program], nurture these sectors. The Berlin metropolitan region thrives as a hub for biotech and health tech startups, exemplified by companies like BioNTech. Dr. Rothe's study proposes a central dialogue platform to collaborate with Berlin's academic, business, and political communities, focusing on infrastructure projects and fostering sustainability in the bio and health tech startup ecosystem.

The data clearly demonstrates Berlin's strong performance, as it consistently ranks among the top two most appealing startup ecosystems in Europe. Even when it doesn't secure the top position, it maintains a significant lead over its competitors, including cities like Barcelona and Amsterdam. Berlin supports its startups in their early stages, this is reflected in the cities top three ranking in the following subcategories: "proportion of international participants in accelerators, the number of kickstarter campaigns, seed investments, or investment purchasing power" ([Berlin Partner, 2023]).



Source: [The Startup Heatmap Europe]

Furthermore, Berlin's reputation as a "Tech-Lifestyle-City" has earned its recognition on a global scale. Savills, a leading global real estate services provider, ranks Berlin among the top 12 such cities worldwide. The dynamics of Brexit have also played into Berlin's hand, positioning it as a potential European tech and business center alongside London. As predicted by experts, London's status as a competing European tech hub is expected to wane, further boosting Berlin's prospects. Berlin's journey toward becoming a tech powerhouse is also characterized by the city's ability to maintain a low cost of living, a crucial factor contributing to the success of its thriving local tech industry. This holistic approach to nurturing startups, combined with its affordability, continues to attract tech enthusiasts and entrepreneurs alike.



Source: Berlin Partner

Exploring Transatlantic Medical Technology Synergies: TBIC's Visit to MEDICA in Düsseldorf

The German medical technology sector, known for its "Made in Germany" quality, ranks as the world's third-largest producer of medical technologies, celebrated for its high and reliable quality. The Rhineland Metropolitan Region, which includes the cities of Cologne and Bonn and counts more than 8.5 million inhabitants, serves as a prominent hub for this industry due to its strategic collaboration between research, technology, and academic institutions, thus offering a robust foundation for medical tech companies. Notable institutions in the region include university hospitals, research organizations like the German Federal Institute of Drugs and Medical Devices, the German Federal Ministry of Health, and the Federal Centre for Health Education. In Bonn specifically, the German Healthcare Export Group (GHe) comprises approximately 50 innovative medical technology firms, highlighting the thriving business community in the region. With an aging population, there is a growing market for healthcare products and services, making it an attractive destination for innovations. The synergy between research and industry, along with a strong regional network, positions the German Rhineland as an ideal place for medical technology investments and collaborations.

In the United States, there is a substantial market for medical devices and supplies, with state and local governments allocating $322 billion, nearly 10% of their budgets, for health and hospital-related expenses. This funding is divided into 65% for hospital services and 35% for health programs. Procurement opportunities exist within state and local government structures, including state university medical centers, state-owned hospitals, and public health departments. Companies can engage with these markets through vendor registration and solicitations. In addition, domestic preference laws, such as the Buy America Provisions and the Buy America Act (BAA), exist in the U.S. However, they can be navigated by international companies, as they apply narrowly to specific cases and have exceptions. These regulations aim to promote domestic manufacturing and do not pose insurmountable challenges for international companies considering investments in the U.S. medical technology market.

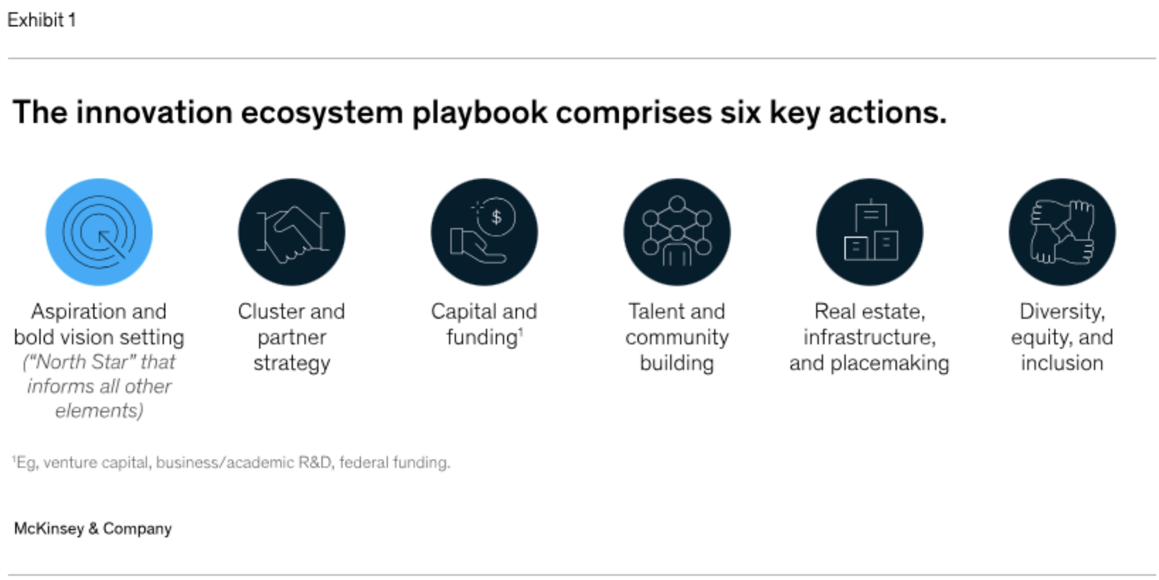
TBIC is excited to participate at the MEDICA trade show in Düsseldorf, Germany in November. MEDICA is one of the largest medical B2B trade fairs globally, with over 4,500 exhibitors from 66 countries and more than 81,000 visitors. It provides an invaluable platform for TBIC to engage with the global medical technology community, explore collaborative opportunities, and gain insights into the latest trends in the field of medical technology.

Relevance for American EDOs - Why Attracting Startups Is More Important Than Ever

With foreign direct investments (FDI) into the U.S. returning to pre-pandemic and stable levels, economic development organizations (EDOs) are faced with new opportunities. The importance of attracting startups, a resilient source of innovation and economic growth, has never been more evident. Numerical statistics offer a compelling argument for the focus on startups. As multi-billion dollar companies increasingly include firms founded just a few years ago, such as BioNTech SE, with an enterprise value of 5.65 billion USD (2022), prioritizing startups can have a profound impact on local economies. BioNTech, established in 2008, has rapidly grown into a major pharmaceutical player, significantly contributing to the biotech sector in Germany, particularly in the state of Rhineland-Palatinate and the city of Mainz. Additionally, their crucial role in combating the COVID-19 pandemic further underscores the importance of supporting and nurturing such emerging enterprises. Another example could be Berlin-based fashion e-commerce company Zalando, also founded in 2008, has grown to become the 10th largest employer in the city over the last 12 years, demonstrating the transformative potential of startups.

Becoming a startup hotspot necessitates a strategic mix of colleges generating a talent pipeline, sources of finance like venture capital funds, and established companies serving as potential customers and cooperation partners. Therefore, EDOs can successfully attract startups by building robust relationships within their local ecosystems. This includes close ties with said colleges, talent sources, accelerators, associations, and larger enterprises. Organizing fundraising events can facilitate access to funding for startups and showcasing the availability of local talent is crucial.

The U.S. Economic Development Administration's Build to Scale Program offers opportunities for startups to thrive through the *Venture Challenge* and *Capital Challenge*. These programs aim to strengthen regional economies and create diverse and inclusive entrepreneurial ecosystems. It focuses on enhancing access to knowledge, capital, and networks, experimenting with support strategies, fostering cross-sector partnerships, and removing equity capital barriers. The *Venture Challenge* offers three funding tiers — *Build, Scale*, and *Ignite*, empowering startups to become industry leaders. The *Capital Challenge* provides operational support to investment funds, increasing access to capital, particularly in regions with limited equity-based funding for technology startups.



Source: McKinsey & Company

Lastly, here are a set of recommendations formulated by McKinsey & Company: Six Essentials – The Innovation Ecosystem Playbook

1. Set the **aspiration and a bold vision**: Establish a unique vision that resonated with stakeholders, distinguishing the ecosystem from others and defining success metrics.

2. Focus on **specific sectors, partners, and anchor tenants**: Identify areas of competitive advantage and ideal anchor institutions to create economic clusters.
3. Catalyze a **critical mass of venture capital** and start-ups through a strong innovation backbone: Develop strong support structures across the innovation funnel, from idea generation to growth.
4. Develop an **ecosystem talent and workforce strategy**: Foster talent pipelines, breaking down barriers to entry and ensuring inclusivity. For instance, through the TBIC College Certification Program.
5. Design **high-quality real estate, infrastructure, and livability**: Invest in physical and digital infrastructure, focusing on the needs of specific sectors.
6. Cultivate a vibrant, **diverse community** and a sense of place: Promote diversity, equity, and inclusion, setting **S**pecific, **M**easurable, **A**chievable, **R**elevant, and **T**ime-bound (SMART) goals and involving the community in growth efforts.

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