

OHIO & The European Union

Why the EU Matters for the Buckeye State



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Why Does the EU Matter?

Globalization of markets and the increasing integration of European countries make it important to understand the European Union (EU). The 27 EU member states have a combined population of about 500 million and GDP of \$16.5 trillion in 2009, making the EU the largest economic area in the world (U.S. GDP was \$14.3 billion in the same year). The EU and the U.S. maintain strong economic ties; trade and investment flows average \$2.7 billion a day between the two and support 14 million jobs on both sides of the Atlantic. State economies rely on this partnership—40 U.S. states have seen an increase in exports to the EU between 2008 and 2009, despite a weak global economic environment. An integrated Europe offers numerous opportunities for businesses in Ohio, yet Ohio consistently ranks below its neighbors in terms of trade and investment with the world's largest economy. By understanding that the EU controls many important facets of the European economy, Ohioians will be able to develop this market, as it can appeal to businesses from across the 27 member states.

To do business with a European country is to do business with the EU. Although the 27 member states retain sovereignty over many important areas such as defense and social services, economics have always played a key role in the European Union (EU) from its beginnings in the 1950s. The environment, agriculture, trade, energy, and anti-trust are just a few areas where the EU usually takes the lead on regulation, and these policies often directly affect the fifty American states. For example, it was the EU, not the member states, that fined Intel \$1.45 billion in May 2009 for breaking EU anti-trust regulations, and the EU blocked the proposed merger of two American firms, GE and Honeywell, in 2001 even though this merger had been approved by the U.S. Department of Justice. The European Union established a legal framework regulating genetically modified (GM) food and feed within the EU. To build stronger ties with this major economy, Americans need a deeper understanding of the EU.

This booklet will examine the Buckeye State's ties with the EU and explain the importance of the EU to its member states and the world economy.

Figure 1: **The 27 European Union Member States**

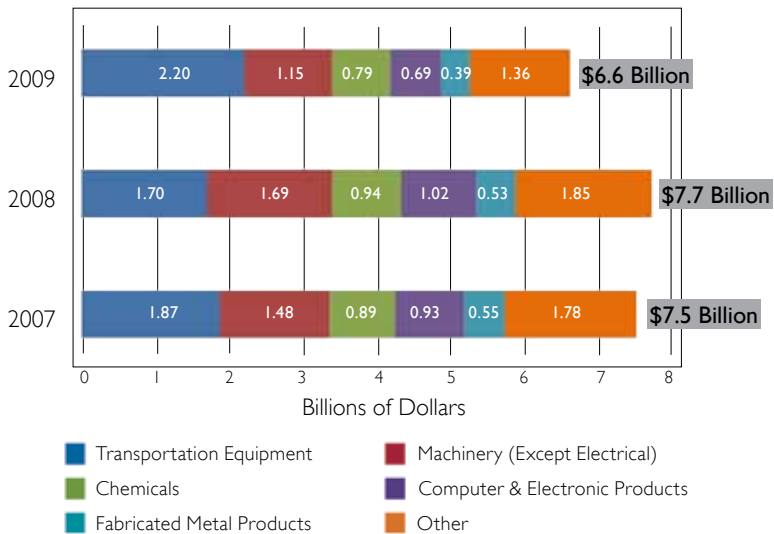


* Estonia will join the Eurozone on January 1, 2011

Ohio's Trade with the EU

The EU is one of the Buckeye State's strongest trading partners. Ohio's exports to the EU's 27 member states were approximately \$6.6 billion in 2009, representing 19% of Ohio's global exports. Of the 50 U.S. states, Ohio ranks tenth in value of exports to the EU. At the same time, approximately 3% of all imports into the EU came from Ohio in 2009 and 2008 (see Figure 2). Although Ohio's exports to the EU decreased from \$7.7 billion in 2008 to \$6.6 billion in 2009, the region's share of Ohio's total exports actually expanded from 17% in 2008 to 19% in 2009, demonstrating the reliability of the European market for Ohio. Typically, the EU is the second largest destination for Ohio exports after Canada and accounts for more than twice the value of the state's exports to

Figure 2: **Ohio's Exports to the EU**



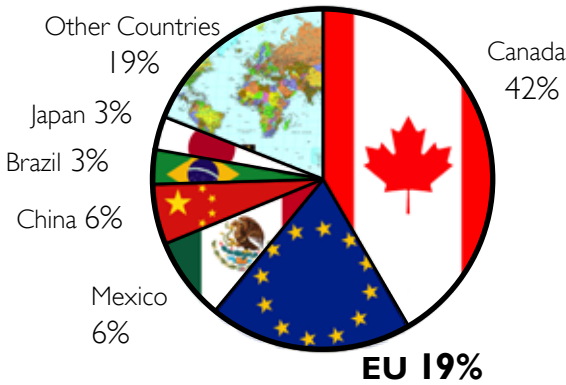
Source: World Institute for Strategic Economic Research

Mexico. Ohio's exports to the EU are equal to the combined value of the state's next four largest export markets (Mexico, China, Brazil, and Japan).

Ohio's largest European trading partners in 2009 were the United Kingdom, Germany, France, the Netherlands and Greece (see Figure 3). Other EU export partners, including Belgium, Italy, and Spain, bought at least \$200 million worth of goods from Ohio. Manufactured goods (transportation equipment, fabricated metals, machinery, computers and electronics) account for most of Ohio's exports to the EU. Transportation equipment and non-electrical machinery were the two largest export categories. Almost \$1 billion of the goods classified as "other" in Figure 2 were in metal, plastic, and other manufactured items. Chemical products account for between \$790 and \$940 million in exports annually.

The volume of Ohio's trade with Greece is striking. Ohio's exports to Greece jumped from just \$27 million in 2008 to \$1.1 billion in 2009, making it Ohio's fifth largest market for exports in 2009. The largest growth in trade between Greece and Ohio came from sales of aircraft and transportation equipment, which rose from \$1.3 million in 2008 to over \$1.1 billion in 2009 or 11% of Ohio's transportation equipment exports in 2009. Despite a serious economic crisis, Greece continued to make large purchases, demonstrating that opportunities exist for global trade in difficult economic times. Ohio's trade with Greece shows that a few large deals can greatly influence a country's balance of trade.

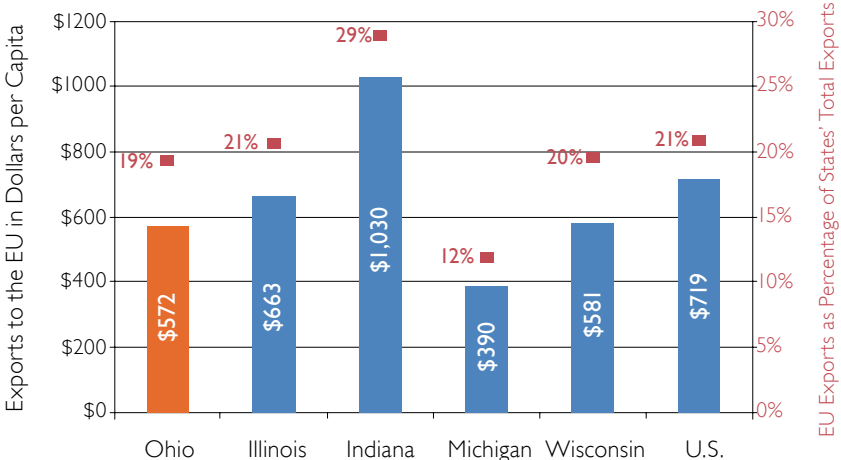
Figure 3: **Ohio's Exports**
by Country in Percentages



Source: World Institute for Strategic Economic Research

Although Ohio's exports to the EU have grown by 40% in the last ten years, in comparison with other states Ohio exports a relatively small amount to the EU. In both terms of exports as a percentage of total exports and on a per capita basis, Ohio is below the national average. Moreover, among the five Great Lakes states, only Michigan exports fewer goods to the EU. Given the size of the European market, opportunities no doubt exist for Buckeye products.

Figure 4: **The Importance of EU Trade**
in Dollars Per Capita and as Percentage of States' Total Exports



Source: World Institute for Strategic Economic Research

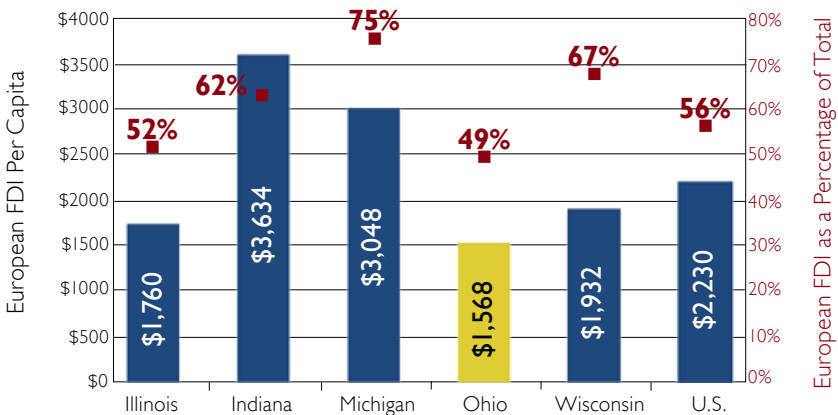
The EU's Investments in Ohio

Europe is the largest contributor of Foreign Direct Investment (FDI) to the Ohio economy with a contribution of \$18 billion in 2006.* This represents almost half of Ohio's total FDI. Yet as shown below, Ohio lags behind both the national average and its neighbor states in attracting FDI from EU countries.

Four EU member states are major investors in Ohio. Germany was the main European source of FDI, investing \$7.9 billion in 2006, while the United Kingdom provided \$5.9 billion in investments, France \$1.8 billion and the Netherlands \$0.7 billion. Although Ohio ranked 19th of the 50 states in terms FDI received per state GDP, its per capita FDI from EU member states is 70% of the national average. Investment from EU countries in Ohio also supports about 116,700 Ohio jobs, of which more than a third come from manufacturing activities. This equates to slightly less than 2% of Ohio's workforce, which is close to the national average, but places Ohio fourth among the five Great Lakes states.

Three Ohio cities are among the top 13 metropolitan areas for exports in the U.S. Only eight cities in the U.S. export more to the EU than Cincinnati. Cincinnati has capitalized on its strong historic ties with Germany to foster partnerships with German Länder (states) and development agencies. About 200 German establishments were operating in the area in 2005.** Some of the top European investors are from Bavaria (home to Cincinnati's sister city of Munich), including the German insurance conglomerate Munich Re, which acquired the Ohio-based Midland Company for \$1.3 billion in April 2008. Munich Re employs about 1,000

Figure 5: **EU Foreign Direct Investment (FDI) to Midwest States**
in Dollars as FDI Per Capita and as a Percentage of Total FDI per State

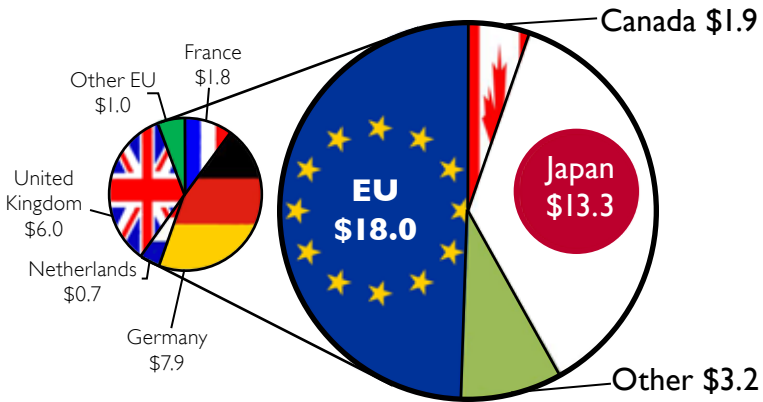


Source: U.S. Department of Commerce Bureau of Economic Analysis

* Based on 2006 data (the last year available of complete statistics)

** Last data available are from April 2005

Figure 6: **Sources of Foreign Direct Investment in Ohio from Europe and the World (in billions)**

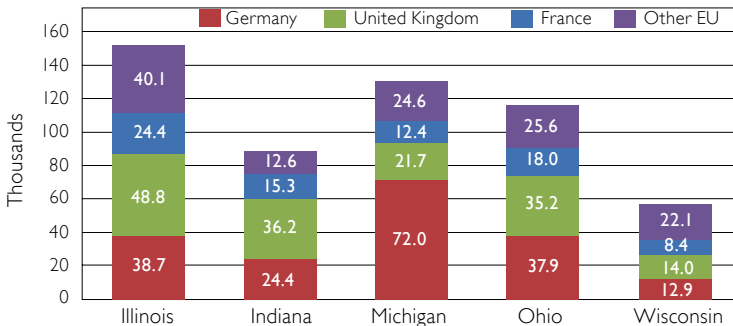


Source: U.S. Department of Commerce Bureau of Economic Analysis

workers at Midland's American Modern Home Insurance Group. The British defense company BAE Systems employs over 1,500 people at its West Chester, Ohio facilities, which manufacture products primarily for the American military. Similarly, Cleveland has capitalized on its European connections, as the Small and Medium Entrepreneurs (SME) Union, a European business organization that helps businesses in over 30 European countries, recently established its first North American office in Cleveland. Overall in 2005, about 500 European firms had business establishments in Ohio. Among these, two non-EU countries, Norway and Switzerland, account for about 10% of European establishments in Ohio and employ about 10,000 workers.

Figure 7: **Employees in Multinational Firms Based in the EU**

Overall and by Country (in thousands) by U.S. State



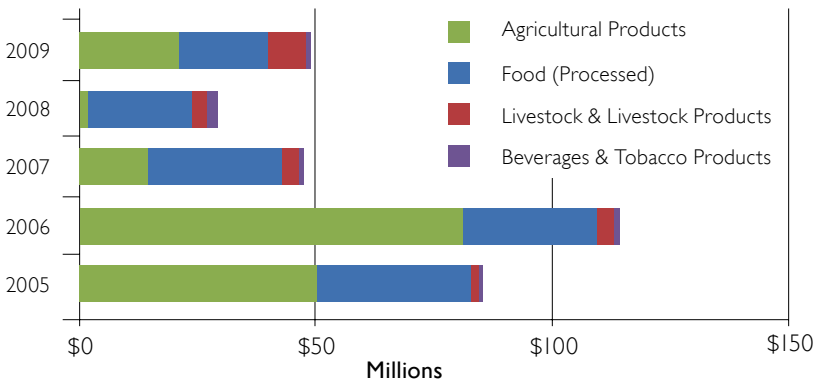
Source: U.S. Department of Commerce Bureau of Economic Analysis

Agriculture

The 27 members of the EU are the fourth largest international market for Ohio agricultural products, worth a total of almost \$50 million in 2009. But while U.S. agriculture exports to the EU have increased by 5.2% in the past five years (and 41% between 2005 and 2008), Ohio's exports have decreased by 42% over the same period. Ohio's total has fluctuated in the past five years as a sharp decline occurred from the peak of \$114 million in 2006 to just \$28.8 million in 2008 before recovering in 2009. Agricultural exports to the EU accounted for only 3.8% of Ohio's total agricultural exports in 2009, which tied Ohio with Illinois for last among the five states of the Great Lakes region, and less than half the national ratio. In absolute terms, Ohio ranked last in 2009 in the Great Lakes region in total agricultural exports to the EU member states, even though the Buckeye State ranked third in global agriculture exports. Exports of processed food have steadily decreased over the past five years by an average of 12% a year, while exports of livestock actually reached a peak in 2009 with \$8.2 million exported to the EU.

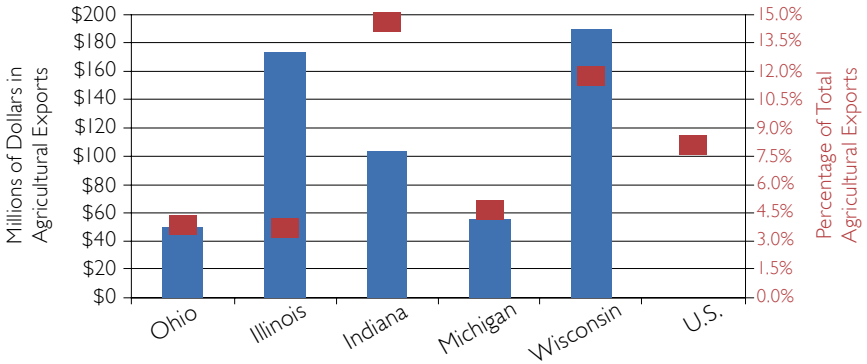
For Ohio to increase its overall agricultural exports to any EU country, it is important to understand the EU's role in European agricultural policy since the EU sets tariffs, negotiates trade deals, regulates agricultural products, and controls European farm subsidies. The EU represents all 27 countries in international trade negotiations, both at the World Trade Organization (WTO) and bilaterally with the United States. For example, the U.S. took the EU, not the individual member states, to the WTO for the EU's moratorium on genetically modified agricultural products.

Figure 8: **Ohio's Agricultural Exports to the EU**
in Millions of Dollars by Year



Source: World Institute for Strategic Economic Research

Figure 9: **Regional Agriculture Exports to the EU**
 by State in Millions of Dollars (blue)
 and as Percentage of Total Agricultural Exports (red)



Source: U.S. Department of Commerce Bureau of Economic Analysis

The EU is also responsible for agriculture subsidies to farmers across the EU through the Common Agricultural Policy (CAP), which also affects the export market. With a budget of €54.8 billion (approximately \$71 billion), the CAP represents about 41% of the 2009 EU budget. Enshrined in the founding treaty of the European Economic Community (the predecessor of the EU), the CAP's original goal was to ensure a stable food supply for its member states. The CAP went through major reforms in 1999 and 2003, as production and subsidies were decoupled. Farmers now receive a fixed sum, regardless of the quantity produced. In addition to direct aid, the CAP was restructured to include stronger rural development components to improve EU farm competitiveness, environmental protection, and the diversification of rural economies. As a result of these policies, EU farmers no longer produce large food surpluses. In fact, the 500 million residents of the EU now represent the world's largest food importer. Thus, the EU currently offers an extensive, albeit highly regulated, market for agricultural products from the U.S.

Integration

In 1957, six countries (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) formed a customs union, creating a common customs and tariff regime for all of the members, which still operates today. Since then, as more European countries joined, the EU has also become more integrated, and the member state economies more intertwined. The single market is the core of the modern EU. Initiated in 1986 with the passage of the Single European Act, it promotes the free movement of labor, capital, goods, and services within the European Economic Area (EEA)—the 27 EU member states and three members of the European Free Trade Area (Iceland, Lichtenstein, Norway). Switzerland established a separate set of bilateral agreements with the EU. The EEA allows non-EU countries to participate in the EU's single market without joining the EU, if they adopt certain EU market-related legislation.

The European Commission (the executive/administrative body of the EU) has also used the Single European Act to justify its efforts to increase transnational uniformity in health, safety, and environmental policies, as well as to increase its power to regulate business by creating uniform standards across the EU in order to promote the common market. For example, the EU has the capacity to block government subsidies to firms and prevent monopolies. The European Commission also represents the member states in external trade matters; thus the EU speaks for all 27 countries at the World Trade Organization (WTO) and in bilateral trade talks with the United States.

U.S. firms engaged in trade with Europe must be mindful of EU policies and regulations. European integration can be seen as a positive for American businesses, since it lowers transaction costs in Europe. For instance, Ohio firms have to deal with only one set of customs regulations when exporting to multiple countries in the EU, and the transnational nature of EU regulations has simplified many procedures for firms. In this way, EU integration facilitates international trade and investment while advancing globalization of the world economy.

The adoption of the euro represents the boldest attempt at European integration. In 1999, 12 EU members agreed to replace their national currencies with the euro, and on January 1, 2002, the euro became the sole legal tender in these countries. Four more countries have since joined the so called Eurozone, and Estonia plans to join in 2011. Though eleven EU states do not use the euro as their official currency, five members (Bulgaria, Denmark, Estonia, Latvia, and Lithuania) have pegged their currencies' exchange rates to the euro—meaning that these currencies' exchange rates are fixed against the euro. The result is that these countries' currencies fluctuate with the euro against the dollar, and national central banks cannot control exchange rates.

The euro reduces costs through lower exchange transactions, since firms can now deal in the same currency across the Eurozone. This removes the cost of converting between two currencies and the risk of currency fluctuation within

Figure 10: **Dollar/Euro Exchange Rate**



Source: European Central Bank as of June 1, 2010

the Eurozone. The euro as a common currency has helped accelerate European financial integration, facilitating cross border operations for banks and financial service firms. By 2009 the euro represented one-third of all foreign exchange transactions in the world.

Adopting the euro is significant because it implies surrendering one of the key components of sovereignty—control over monetary and often fiscal policy. Countries using the euro or currencies pegged to the euro can no longer adjust exchange rates or raise interest rates (which are now controlled by the European Central Bank based in Frankfurt, Germany) in response to economic fluctuations. The 2010 European financial crisis highlights this loss of sovereignty, as some countries (especially in northern Europe) have wanted to keep inflation low, while many countries (mostly located in southern Europe) would benefit from higher inflation. Additionally, countries with large government debts can no longer devalue their currencies to reduce their international debts. As a result, while the adoption of the euro helped fuel economic growth in the EU for the euro's first ten years, the euro also magnified the financial crisis in 2010 in many EU countries.

Conclusion

The European financial crisis in 2010 demonstrates the high degree of integration in the EU across national economies and necessity to think of the EU as a single economy. Yet compared to its neighbors, Ohio is not making the most of the world's largest economy, as the state consistently exports less to the EU than other states and receives less investment from the EU. As a result, while Ohio has been building its connections with the EU, the Ohioians should be aware that to develop the EU market, they need to better understand that the EU controls many aspects of the European economy. For more information on the EU, please visit: www.iub.edu/~eucenter/business.shtml.



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