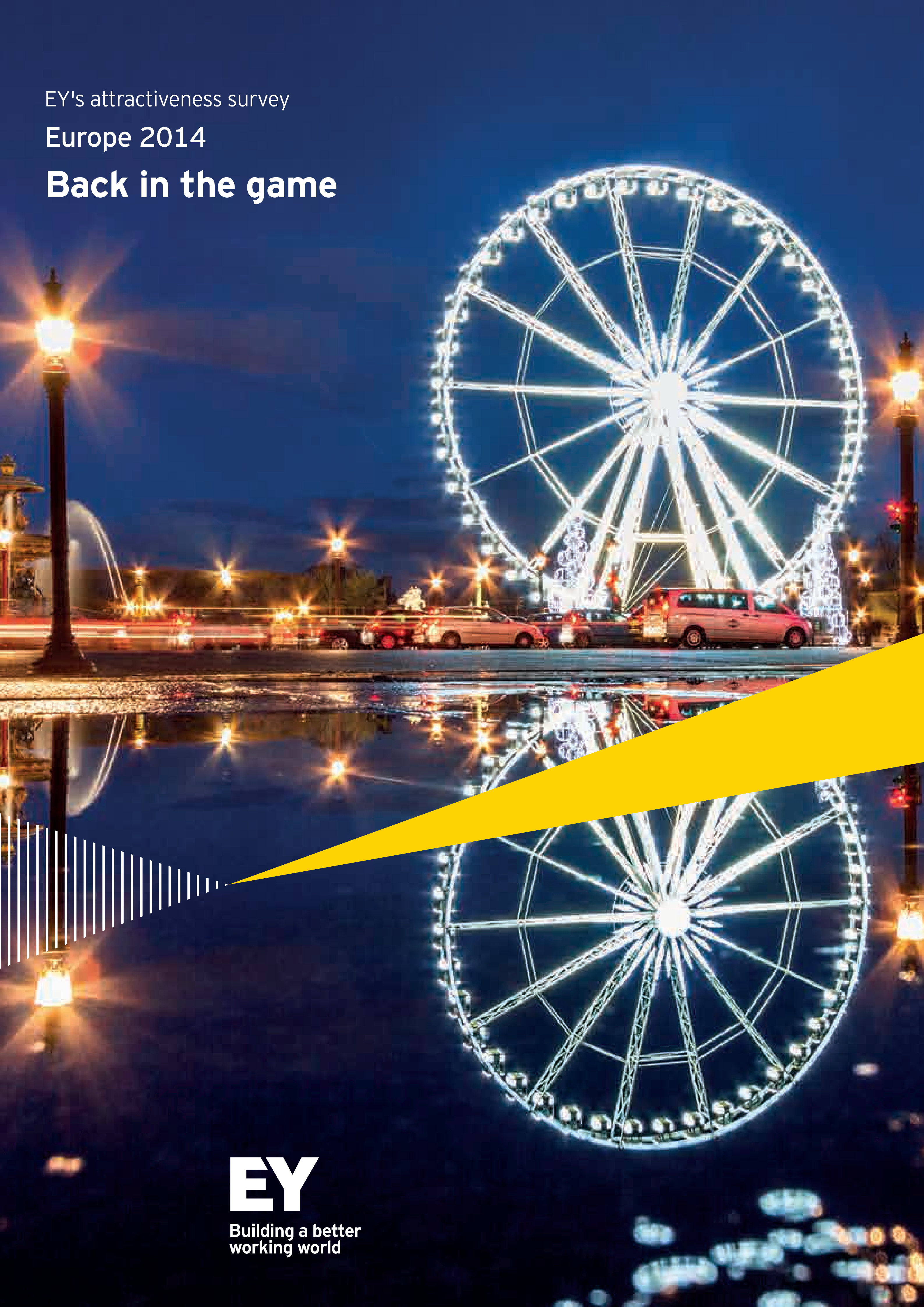
EY's attractiveness survey

Europe 2014

# Back in the game



EY

Building a better working world

Attractiveness

## EY's attractiveness surveys

EY's attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

**For more information, please visit:**
**www.ey.com/attractiveness**


### We would like to extend our gratitude to...

**Guillaume Alvarez**, Senior Vice President EMEA, Steelcase; **José Manuel Barroso**, President, European Commission; **Nani Beccalli**, President and CEO, GE Europe; **Pierre Dejoux**, President North Europe and Africa, Otis Elevator Company; **Philip Dunne**, President, Prologis Europe; **Jacques Guers**, Corporate Vice President Global Accounts Operations, Xerox; **Jean-Paul Huchon**, President, Ile-de-France Regional Council; **Sir Richard Leese**, Leader of the Manchester City Council and Deputy Leader of the Greater Manchester Combined Authority (GMCA); **Yves Leterme**, Deputy Secretary General, Organization for Economic Co-operation and Development (OECD); **Jussi Pajunen**, Mayor of Helsinki; **António Pires de Lima**, Minister of Economy, Portugal; **Bruno Strigini**, President, MSD, Europe & Canada.

# EY's attractiveness survey – Europe 2014





## Contents

## Foreword

# Back in the game

**Jay Nibbe**
Chair of Global Accounts Committee, EY

**Marc Lhermitte**
Partner, Global Lead – Attractiveness and Competitiveness, EY

Europe has had a tough time in the last few years. Recession, unemployment, austerity, weak consumer confidence and uncertainty have battered the economy. In this year's *European attractiveness survey*, we have included a special section on the impact of the prolonged economic crisis on Europe's FDI landscape. The results are astonishing. Europe's share in global FDI inflows has declined significantly and the continent has lost its long-lasting leadership: from over 50% of the world's FDI inflow in 2002, Europe captured only 20% of all global investment in 2013.

Europe's economic map was redrawn during the crisis years. While some countries struggled to regain investor confidence, others took advantage of the crisis to improve their competitiveness, become stronger and become more attractive to FDI. Investment patterns also changed. For example, there was an increase in sales and marketing projects. This illustrates foreign investors' commitment to seek every sign of growth and chase every opportunity in a stagnant economy. Investment sizes were also substantially smaller than in pre-crisis years: average job creation from FDI projects declined 22% during the recession.

However, 2013 appears to have been a turning point. The Eurozone's recession finally came to an end in the second quarter of the year. Most economies have begun to grow and consumer spending has increased. As a result, businesses have begun to see growth and profits again, and boards are approving investment proposals. Europe's emergence from recession is, of course, reflected in this year's *European attractiveness survey*. The survey measures the reality of FDI in terms of the number of projects initiated and jobs created, and explores the perceptions of more than 800 FDI decision-makers.

An FDI record was set in Europe in 2013. Foreign investment decisions in the continent reached an all-time high of 3,955 projects, up 4% from the previous year and 17% from the pre-crisis average. The two heavyweights — the UK and Germany — registered an increase in FDI projects and continued their battle for the top spot. Meanwhile, France, Europe's third-largest economy, seems to have halted its decline as an investment destination. The continent's midsized markets, such as Spain, Belgium, the Netherlands and Ireland, showed resilience. Central and Eastern Europe struggled with a decline in FDI decisions when, for example, the crisis reduced the number of projects by Western European automotive companies or shared services outsourcers.

Although the worst may be behind us, the crisis is far from over. Respondents to our survey are more optimistic than last year. At the same time, they are realistic. The majority is betting on a three- to five-year period for Europe to overcome the crisis completely. Strikingly, only a third of them have plans to establish or expand operations in the continent in the next year.

Investors emphasize that recovery is not an invitation to be complacent and that competitiveness remains the key to sustainable growth and a more attractive Europe. Our respondents stress the importance of an ecosystem-related approach to innovation and entrepreneurship as the first step. Investors want to see a more integrated, "single" Europe. They demand access to skills and labor mobility within and outside Europe, and they hope to face fewer regulations. Furthermore, they believe that making European cities more innovative and "smart" is one of the best ways to demonstrate Europe's attractiveness to the world.

This is the 12th *EY European attractiveness survey*. We would like to thank the hundreds of decision-makers and EY professionals who have taken the time to share their thoughts with us in the worst of times and in the best of times.

Viewpoint

# Why Europe needs an industrial renaissance

**José Manuel Barroso**
President, European Commission

Europe has been able to overcome the most difficult phase of the crisis, and this year is likely to be a turning point. The economic recovery started during the last quarter of 2013, and is expected to continue spreading across countries and gaining strength.

However, the challenges that still lie ahead demand that we step up our action for economic recovery and job creation: unemployment remains at unacceptably high levels, investment is estimated to have slumped by €380b since 2008 and the contribution of manufacturing to GDP has continued to decline.

Restoring growth and prosperity therefore requires a stronger focus on our industrial competitiveness. This is why the European Commission (EC) has called for a "European industrial renaissance," which was debated at the March European Council and is aimed at bringing the share of industry in Europe's GDP to 20% by 2020.

Industry still plays a key role in our economy. It accounts for over 80% of Europe's exports and a surplus of €1b per day in 2012, as well as 75% of trade within the single market and 80% of private research and innovation. One in four private sector jobs are in industry.

But Europe's industry is facing various challenges: subdued internal demand, an uneven business environment, low levels of innovation and investment, higher energy prices than our competitors, and difficulties accessing affordable materials, qualified labor and capital.

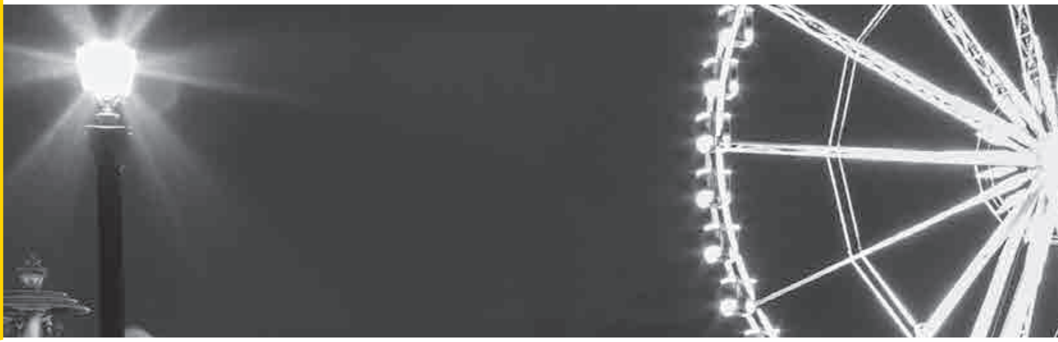
Europe's industrial base has to be rejuvenated. Our strategy for an industrial renaissance aims at a strong and well-functioning single market, an improved business environment, a renewed energy and climate policy, better access to finance — in particular, for small and medium-sized enterprises (SMEs), skills development, support to entrepreneurship and, externally, an ambitious trade policy.

This strategy is supported by substantial European funding via four major programs. Under Horizon 2020 almost €80b will be invested in Research and Innovation projects during 2014-2020. We have also launched COSME, the first program dedicated to SMEs, while European structural and investment funds, will make available €100b for smart specialization in Member States and the regions. Finally, based on Horizon 2020 we have proposed an innovation investment package amounting to €22b in public private partnerships to support our growth agenda.

Now the real key issue is implementation. And a crucial element for the successful implementation of the European Union (EU) industrial policy objectives is the involvement of all stakeholders, including all institutions, all Member States at national and regional levels, and industry. This is a shared responsibility.

**"Our strategy for an industrial renaissance aims at a strong and well-functioning single market, an improved business environment, a renewed energy and climate policy, better access to finance ..., skills development, support to entrepreneurship and, externally, an ambitious trade policy."**

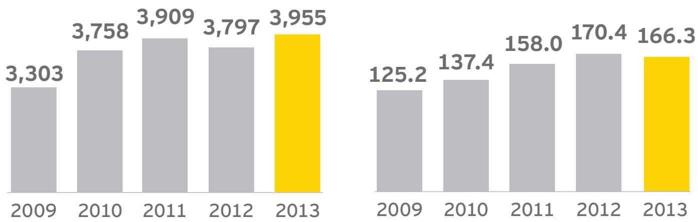
# Executive summary



## 2013: a record year for investment decisions in Europe

The 3,955 investment decisions in 2013 represent an all-time high, showing investors' confidence in a resilient and adaptable Europe. In 2013, 166,343 jobs were created through FDI in 42 European countries, down 2% from 2012 but still 15% below pre-crisis levels.

### FDI projects in Europe




Source: *EY's European Investment Monitor 2014 (EIM).*

## Europe is the second-biggest recipient of FDI

Europe (excluding Russia) ranked second globally for total FDI inflows in 2013. Inflows into the continent rose by more than 25% – the fastest growth in any region. The increase was even higher in the EU (38%). Globally, 45% of executives saw Western Europe as the most attractive destination for FDI, just ahead of China (44%).

### FDI inflows by major region

(in € billion)

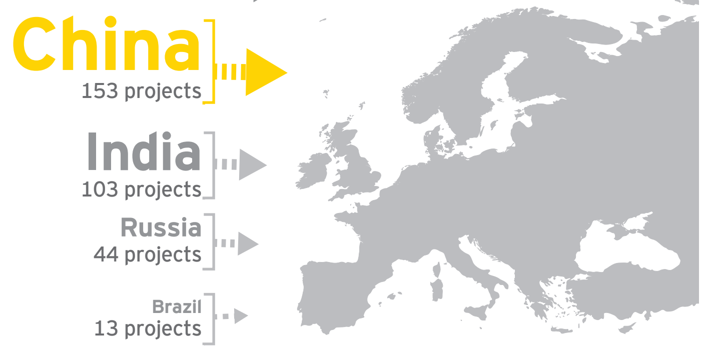
| | 2012 | 2013 |
|---|---|---|
| Developing Asia | 31% | 28% |
| Europe | 18% | 20% |
| Latin America and the Caribbean | 19% | 20% |
| North America | 16% | 15% |
| Africa | 4% | 4% |
| Transition economies | 7% | 9% |
| Others | 5% | 4% |

Source: UNCTAD.

## BRIC investors increase their footprint in Europe

Intra-European investment remained the largest source of FDI projects in the continent. While the US continued to be the leading single investor (1,027 projects creating 38,718 jobs), the real headline in 2013 came from the BRICs. These countries announced 313 investment projects and 16,900 new hires – both all-time highs.

### BRICS footprint



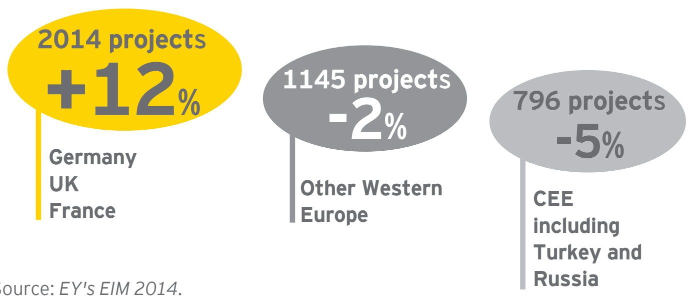

Source: *EY's EIM 2014.*

## Countries race for FDI at multiple speeds

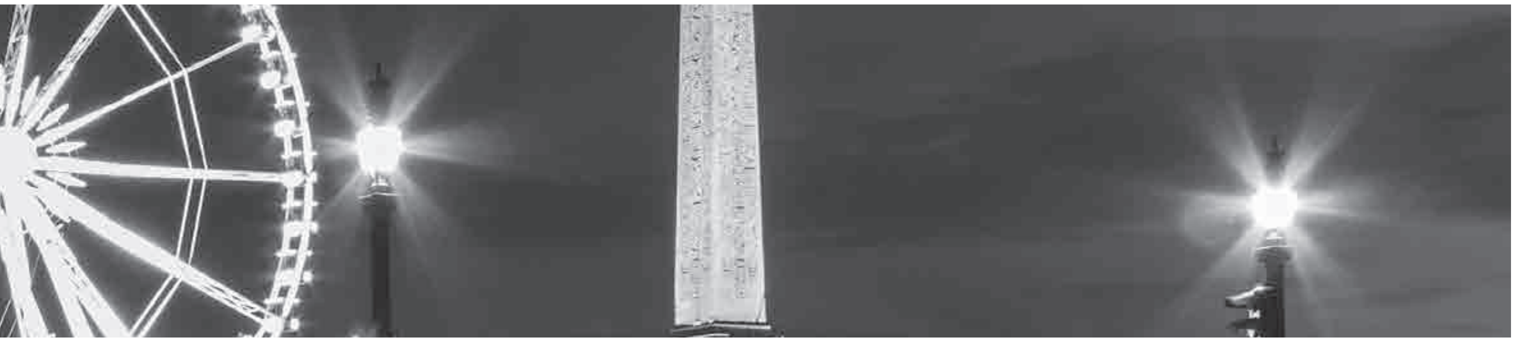
More than half of FDI projects in 2013 were announced in three countries: the UK, Germany and France. Spain, Belgium, the Netherlands, Ireland and Finland experienced a stable year, securing, between them, 18% of FDI projects and 17% of jobs. Central and Eastern Europe (CEE) drew 5% fewer investment projects than in 2012, as the crisis reduced the number of projects from Western European automotive companies and shared services outsourcers.

### Top 3 in number of projects

Evolution 2012-13



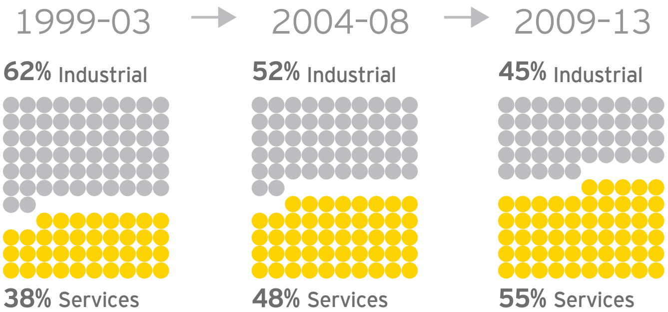

Source: *EY's EIM 2014.*



## Less manufacturing, more services

Ten years ago, manufacturing accounted for almost half of FDI projects in Europe. Services operations now attract more than two-thirds of FDI projects to Europe.

### Shift in FDI activities share




**Services:** headquarters, sales and marketing, business services, education and training. **Industrial:** manufacturing, R&D and logistics.

Source: *EY's EIM 2014.*

## Innovation-intensive activities boost Europe's attractiveness

In 2013, foreign investment from software, pharmaceutical and scientific research companies rose significantly.
Also, R&D operations were among the hottest areas in 2013, with the number of projects increasing 23% on the year.

### Sector evolution

+96%
Scientific research
(88 projects)

+58%
Pharmaceuticals
(141 projects)

+27%
Software (509 projects)

Source: *EY's EIM 2014.*

## Europe's future at the top of the global value chain

R&D will drive Europe's FDI in the future, according to 45% of our respondents. Sector-wise, digital and life sciences are seen as the key drivers of Europe's future attractiveness, but green growth is still a distant reality.

### Drivers of the European growth

| | |
|---|---|
| Information and communication technologies | 33% |
| Pharmaceutical industry and biotechnologies | 25% |
| Energy (including nuclear energy) and utilities | 23% |
| Cleantech | 21% |
| BtoB services (excluding finance) | 20% |
| Transport industry and automotive | 19% |

Source: *EY's 2014 European attractiveness survey (808 respondents).*

## Investors are confident ... and more demanding

According to 54% of respondents, Europe's attractiveness as an investment destination will improve in the next three years. But modernization of the labor markets, further economic integration and cuts in regulation remain the top priorities for investors.

### Europe's attractiveness

54% improve

33% stay the same

12% decrease

Source: *EY's 2014 European attractiveness survey (808 respondents).*

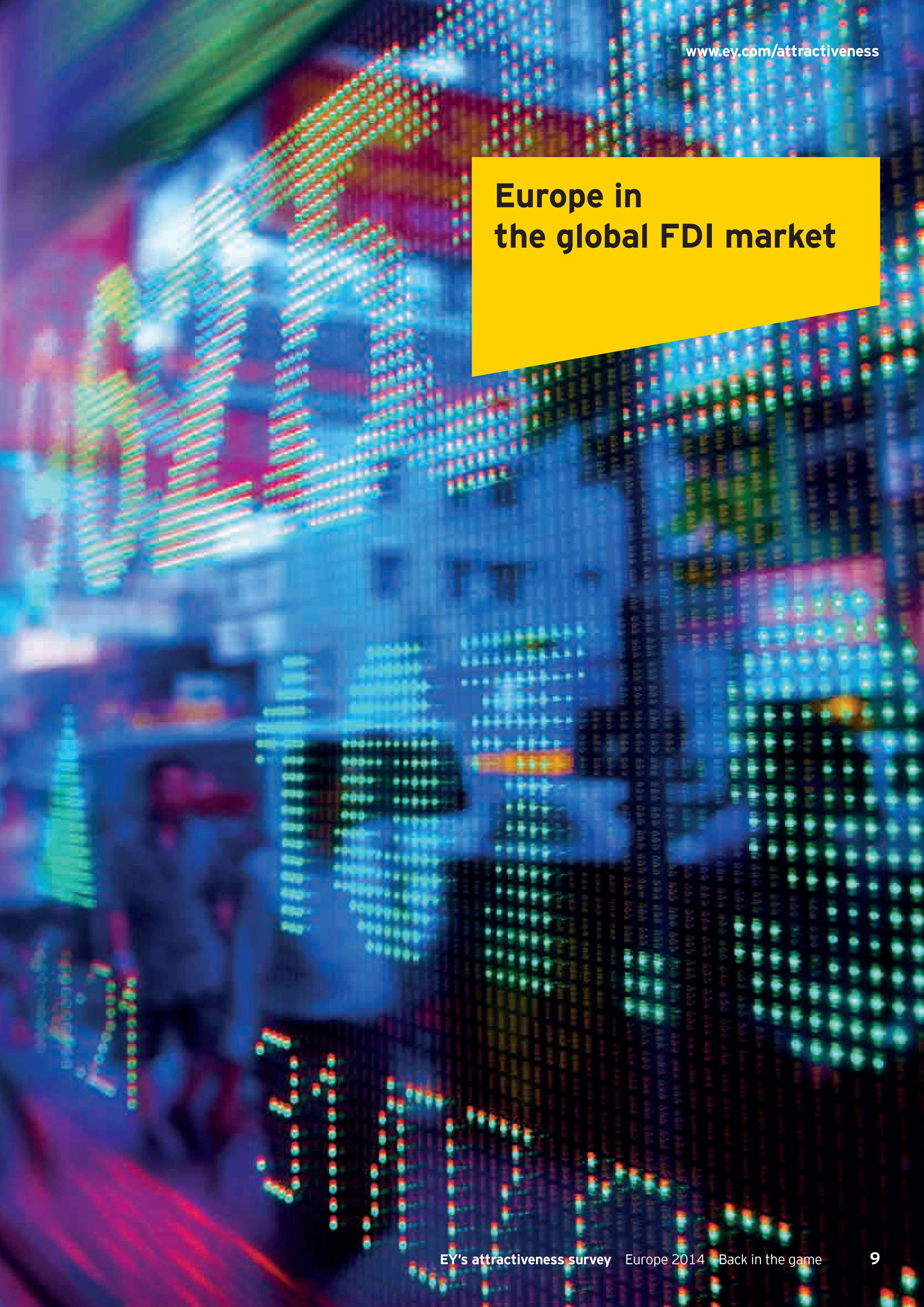
# The big picture

**€1.13t**
global FDI inflows in 2013, up 11% from 2012.

**€223b**
FDI value secured by Europe, up 25%, the highest increase in any region.

**45%** of respondents chose Western Europe as the most attractive destination for FDI, marginally ahead of China (44%).

**43%** look at the stability and transparency of the political, legal and regulatory environment before making an investment decision in Europe, while 37% primarily assess the region's market size and dynamics.



# Europe in the global FDI market

# 2013 – a year of growth for international investment in Europe

In 2013, global FDI inflows reached €1.13t, up 11% from their 2012 value. However, this growth was not evenly spread. The seismic shift in FDI patterns in 2012, which saw developing economies drawing the greater share of investors' attention, continued in 2013.

While developed economies attracted a historically low 39% (€433.7b) share of investment globally, emerging markets pulled in 52% of inflows. UNCTAD remains optimistic about FDI prospects and estimates that global FDI inflows will reach €1.2t in 2014 and €1.36t in 2015.

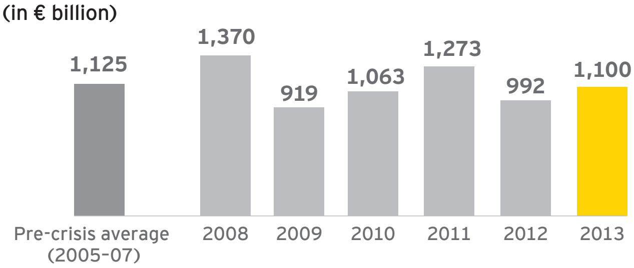
Global FDI inflows grew by **11%** in 2013 to reach €1.13t.

Europe pulled **20%** of global FDI inflows in 2013.

Europe (excluding Russia) ranked second for total FDI inflows in 2013 and inflows rose by more than 25% – the fastest growth in any region. The increase was even higher in the EU (+38%). At the regional level, developing Asia attracted its highest volume of FDI inflows ever in 2013, although it was slightly below 2012 levels. From a country perspective, the US (€120b) and China (€96b) continued to be the largest recipients of FDI inflows in 2013. For the first time ever, Russia became the third most attractive destination for FDI in 2013, receiving FDI inflows of €71b, up 83% from 2012. Latin America and the Caribbean also registered a sharp rise of 18% in FDI inflows during 2013.

## Global FDI inflows

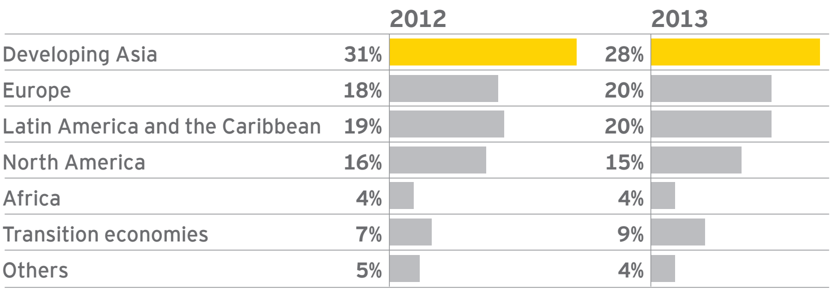
(in € billion)




Source: UNCTAD.

## FDI inflows by major region

% share of global FDI inflows (value in € billion)




Source: UNCTAD.

## Europe's resilience surprises multinationals

Market preferences are changing, as businesses balance long-term growth and short-term gains. Developed markets, both Western Europe and North America, were viewed as more attractive investment locations in comparison to last year as a result of their low-risk profiles. Developing markets, excluding China, witnessed a decline in their perceived attractiveness.

**For the first time since 2009, Western Europe overtook China to become the world's most attractive region to establish operations.**

Investors have once again ranked Western Europe (45%) as the most attractive FDI destination in the world. This means that it has regained its pre-crisis leadership, overtaking China (44%) by a small margin in our respondents' perceptions for the first time since 2009. Western Europe's attractiveness has increased for the last two years, gaining +12 points after it hit a historic low in 2012. CEE continued to rank fourth (31%), slightly below North America, but its rating rose for the second year in a row (+1 point this year and +7 points in 2013).

Overall, Europe has gained +9 points in its attractiveness quotient from last year and +20 points since 2012, when the economic turmoil was at its peak. This confirms a new and sustainable confidence in the region among the business community. However, investor optimism is unevenly spread.

## Established and potential investors have different views

The gains in Europe's FDI attractiveness seen in this survey reflect a strong improvement in perception among respondents who are already doing business on the continent. Forty-five percent of established investors rank Europe as the most attractive region for FDI worldwide. However, only 31% of respondents who are not established in Europe find it the most attractive investment destination. Instead, they see North America (52%) and China (45%) as preferable. Companies already doing business in Europe are perhaps better aware of the situation on the ground. They are seeing growing demand for consumer goods and industrial equipment for 2014 and beyond.

## The world's most attractive regions to establish operations

| | 2006 | 2010 | 2014 |
|---|---|---|---|
| Western Europe | 68% | 38% | 45% |
| CEE | 52% | 24% | 29% |
| North America | 48% | 22% | 31% |
| India | 18% | 22% | 17% |
| China | 41% | 39% | 44% |
| Brazil | 5% | 12% | 13% |
| Russia | 5% | 14% | 19% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

## Divergence in the perception of individual countries

There is a growing divergence in the perceived attractiveness of different European countries, and the divide is no longer simply between core and peripheral economies. Western Europe's rise in global attractiveness is a direct result of positive performances in Germany and the UK. Germany continued to be seen as the most attractive FDI destination in Europe. Forty percent of our respondents put Germany first, up two percentage points from 2013). Germany was particularly favored by companies doing business in Central and Eastern Europe: 63% of them voted it the most attractive FDI destination in Western Europe. The UK (22%) is second in these perception ratings, gaining +6 percentage points on last year — the highest gain witnessed by any European country.

**The positive performance of the UK and Germany led to improvement in Western Europe's attractiveness.**

Improved investor sentiment in Germany and the UK is a reflection of the proven business-friendly attitude and relatively stable economic outlook of these two countries.

However, Western Europe's improvement was partly offset by a decline in the attractiveness of countries such as France (-6 points) and Italy (-2 points), both of which suffer due to a lack of competitiveness, weak business confidence and slow appetite for change. Businesses are watchful for more proactive actions by the governments of these countries.

In the CEE (excluding Russia) divergence is also evident. Poland was again voted the most attractive CEE country, by 31% of the respondents this year. The Czech Republic is a distant second with 11% of votes. The overall attractiveness score of both the countries has declined by six and four percentage points respectively. These "mature" countries are losing out to economies in the East, with the main winners being Turkey (+4 points) and Romania (+2 points).

## North America on an upward trajectory

The picture seems more upbeat for North America. Investors ranked it the third most attractive region globally, with an attractiveness score of 31%, up 2 points from our last year's survey results and +10 points from our 2012 survey. North America's progress toward regaining sustainable economic growth, as well as its technological dominance and new energy mix, is the main draw for investors.

## Most attractive countries to establish operations in Europe

| Western Europe | 2014 | Change from 2013* |
|---|---|---|
| Germany | 40% | +2 pts |
| United Kingdom | 22% | +6 pts |
| France | 11% | −6 pts |
| The Netherlands | 3% | −1 pts |
| Denmark | 2% | +2 pts |
| Spain | 2% | −1 pt |
| Ireland | 2% | +1 pt |
| Sweden | 2% | 0 pt |
| Belgium | 2% | −1 pt |
| Switzerland | 2% | 0 pt |
| Italy | 1% | −2 pts |

| CEE | 2014 | Change from 2013* |
|---|---|---|
| Poland | 31% | −6 pts |
| Czech Republic | 11% | −4 pts |
| Romania | 9% | +2 pts |
| Hungary | 8% | +3 pts |
| Ukraine | 7% | +2 pts |
| Turkey | 6% | +4 pts |
| Latvia | 3% | +1 pt |
| Slovakia | 2% | −1 pt |

* "pts" = % points.
Source: EY's *2014 European attractiveness survey* (total respondents: 808).

## BRICs losing their magic touch

In this year's survey, the cumulative attractiveness score of the BRIC countries declined by 15 percentage points. However, a 13-point decline in Brazil alone was responsible for this steep fall. A look at the two-year picture provides a more realistic view. Since our 2012 survey, Brazil and India's perceived attractiveness score is down by five points and four points respectively; China and Russia's scores remain intact, with no loss or gain. Rapid economic growth in the BRICs in the previous few years overshadowed some of their structural imbalance. Capital flight, depreciating currencies and financial implosion are immediate concerns in these economies. For instance, there was an estimated €53b of capital flight from Russia in the first three months of 2014. If the markets continue to be lukewarm, growth prospects could diminish further.

# Europe meets investors' inclination for stability, tight supply chains and mass markets

Investors' location criteria have evolved over the last few years. The prolonged economic crisis has adversely affected appetites for risk. Today, investors look to a potential location's rule of law to ensure the security of their investments. Forty-three percent of respondents said that the stability and transparency of a market's political, legal and regulatory environment is their main concern when deciding on where to invest. This is a shift from 2011, when respondents claimed that logistics and telecommunication infrastructure were the top priority. Secondly, companies are looking to invest in regions with large and sustainable domestic demand. Respondents ranked the size of the domestic market (37%) as the second most important attribute for choosing an investment location. Meanwhile, potential improvement in productivity (26%) is the third factor chosen by our respondents, jumping from fifth in 2012. Today, an increasing number of business leaders hope locations can achieve productivity-related gains because of reduced input costs, as well as creativity and innovation. While labor costs (26%) remain an important consideration, investors' emphasis on this factor has declined strikingly over the years.

**Investors' top two demands: safety for their investments and a large domestic market.**

Interestingly, these location factors are also key differentiators for European markets. For instance, the same set of investors that view stability and transparency as the key factors for their decisions on locations also ranked stability and a predictable business environment (44%) as Europe's most attractive feature. The continent also offers investors a large (31%) and rich consumer (20%) market to meet investment requirements. Furthermore, the capacity of European markets for innovation (38%) and the quality of their labor forces (31%) ensures easy availability of technology and resources for companies to maximize their gains.

**Key location factors**

Factors that companies take into account when deciding on a location to establish operations

| | 2014 | 2012 | 2011 |
|---|---|---|---|
| Stability and transparency of political, legal and regulatory environment | 1 | 2 | 3 |
| The country or region's domestic market | 2 | 1 | 8 |
| Potential productivity increase for their company | 3 | 5 | 4 |
| Labor costs | 4 | 3 | 7 |
| Transport and logistics infrastructure | 5 | 4 | 1 |
| Local labor skill level | 6 | 6 | 6 |
| Stability of social climate | 7 | 7 | 5 |
| Corporate taxation | 8 | 8 | 9 |
| Telecommunications infrastructure | 9 | 10 | 2 |
| Flexibility of labor legislation | 10 | 9 | 10 |

Source: *EY's 2014 European attractiveness survey* (total respondents: 808).

# Reality

**3,955** FDI projects in 2013, an all-time high.

**166,343** jobs created from FDI, down 2% from 2012.

## Top 3

The UK, Germany and France continued to lead as the top destinations for investment in Europe, accounting for 50% of the FDI inflows.

## Decline

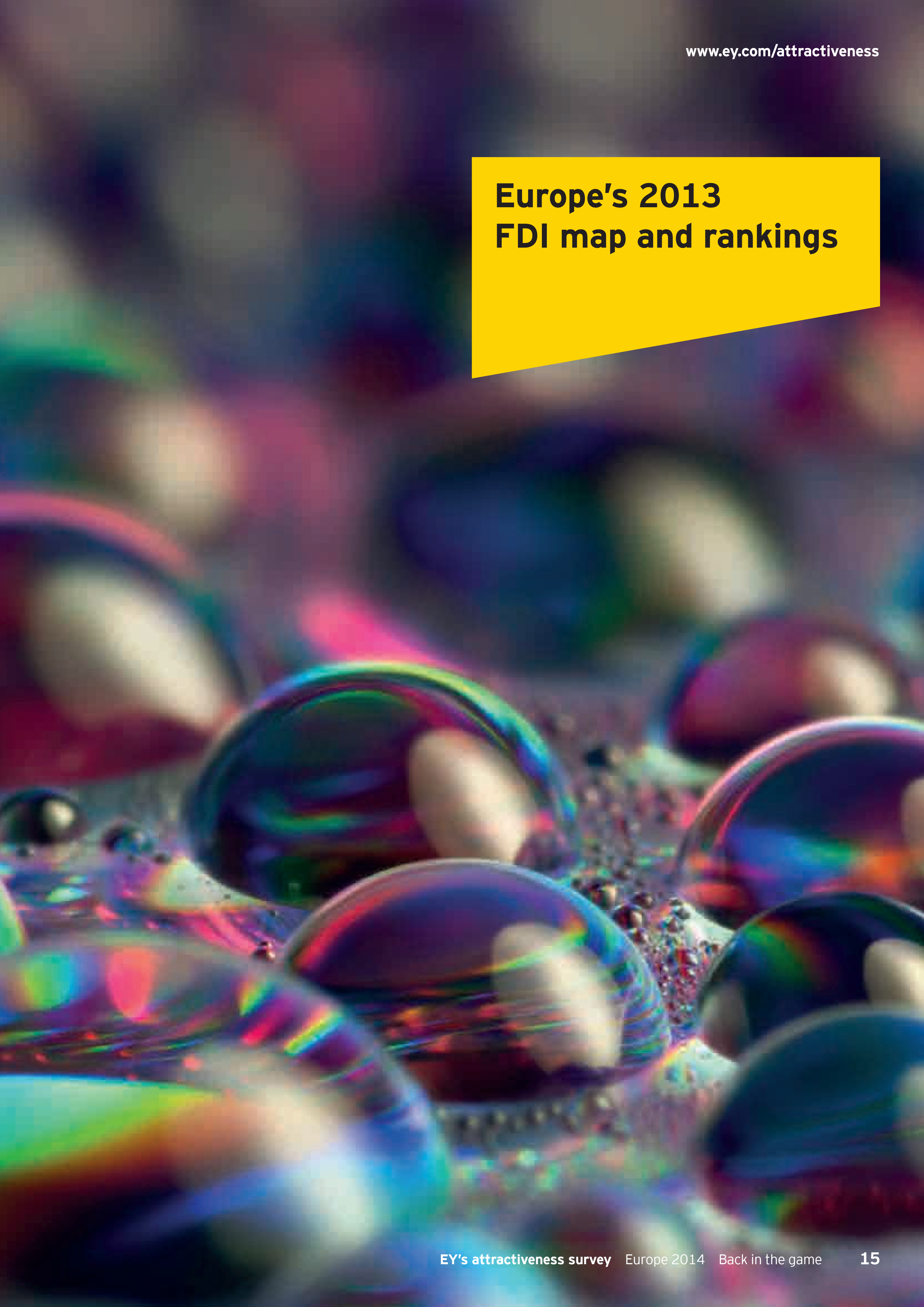
Non-Western European countries witnessed a decline in FDI projects — Turkey being an exception.

## Software

The software industry overtook business services and outsourcers to become the leading sector in Europe.

**29%** of FDI jobs were created by the automotive sector, despite difficulties for historic European car manufacturers.

**BRIC** investors and entrepreneurs invested at an all-time high, and have a marked predilection for Germany and the UK, their two preferred European gateways.



# Europe's 2013 FDI map and rankings

# A record year for investment decisions in Europe

## FDI projects reached an all-time high, but job creation has not kept pace

Europe's emergence from recession was reflected in its FDI performance last year. In fact, 2013 turned out to be a record year for European FDI, with the number of inward investment decisions reaching an all-time high of 3,955. This represents a 5% gain over 2012.

However, over the same period, job creation by FDI projects was down by 2%, still 15% below pre-crisis levels (195,000 jobs). In 2013, an FDI project created 42 jobs on average, compared with 60 jobs per project in the pre-crisis years.

## Limited changes in rankings of the top 15 FDI destinations

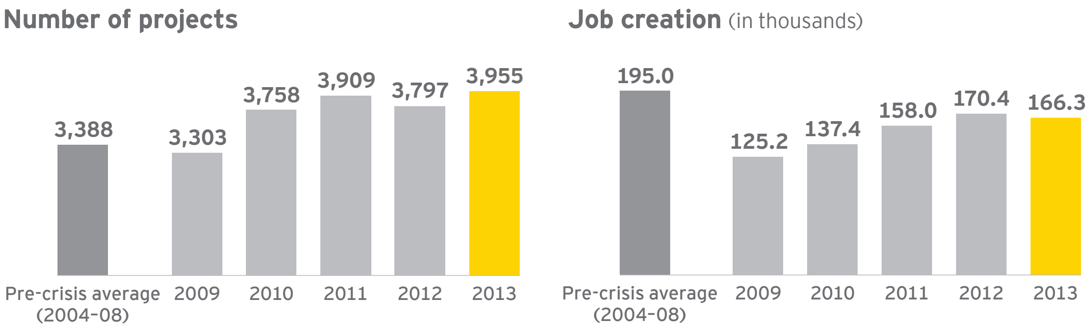
The UK, Germany, France, Spain and Belgium continued to be the top five recipients of FDI projects on the continent. Together, their share of FDI increased from 59% in 2012 to 61% in 2013. Finland moved up three spots to ninth place in 2013 rankings. There was also some reshuffling among CEE countries. Russia regained its position as the top emerging destination after falling behind Poland in 2012.

## At the top, a race between global players

The two top spots on the FDI rankings table are being contested by two heavyweights of the European economy — the UK (+15% compared with 2012) and Germany (+12%). These two powerhouses reached record highs in terms of the number of FDI projects and together accounted for 38% of all FDI projects in Europe last year, compared with 33% in 2011. In both countries, growth was driven by foreign investors' strategies to access large and wealthy markets, with sales and marketing operations accounting for the bulk of growth in projects (+76 projects in the UK and +31 in Germany from 2012).

The **UK** led the European FDI market in 2013, with the US as its largest investor (35%). Investors targeted the software and business services sectors, and investments in the automotive sector also saw an increase. In second place, **Germany** was able to exploit its strong industrial base and skilled labor force, drawing 21% more manufacturing projects than in 2012. Besides Germany's strong appeal for the automotive sector, for which it ranked as the number one destination in Europe (49 projects), the number of decisions in the software and scientific research sectors also rose significantly. With 91 projects, Germany also overtook the UK as the top destination for investment from the BRICs.

## FDI projects in Europe




Source: *EY's EIM 2014.*

**France**, in third position, seems to have halted the erosion of its attractiveness to foreign investors. However encouraging the result, it fails to gain on the two leading destinations and recover its pre-crisis investment levels (an average 18,000 FDI jobs per year and second place behind the UK). Despite a tightly regulated labor market and high taxation of the labor force, France has secured and reinforced its number one ranking in Europe in terms of manufacturing projects, counting both greenfield and expansion FDI operations. At the same time, industrial FDI projects created fewer jobs on average compared with the rest of Europe (28 versus 88).

## Stability in Western Europe's midsized markets

Despite fragile growth, Western Europe's midsized markets — Spain, Belgium, the Netherlands and Ireland — were able to capture 18% of projects and 17% of jobs created by FDI, up from 13% last year.

Surprisingly, FDI projects in **Spain** declined by 19% in 2013, after consecutive increases between 2010 and 2012. Projects from most of its top investors (the US, the UK and Germany) declined, except for France (31 FDI projects, up 48% from 2012). However, the average number of hires per project increased from 37 in 2012 to

### Top 15 countries by FDI projects

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| United Kingdom | 697 | 799 | 20% | 15% |
| Germany | 624 | 701 | 18% | 12% |
| France | 471 | 514 | 13% | 9% |
| Spain | 274 | 221 | 6% | -19% |
| Belgium | 169 | 175 | 4% | 4% |
| Netherlands | 161 | 161 | 4% | 0% |
| Russia | 128 | 114 | 3% | -11% |
| Ireland | 123 | 111 | 3% | -10% |
| Finland | 75 | 108 | 3% | 44% |
| Poland | 148 | 107 | 3% | -28% |
| Turkey | 95 | 98 | 2% | 3% |
| Switzerland | 61 | 76 | 2% | 25% |
| Serbia | 78 | 63 | 2% | -19% |
| Czech Republic | 64 | 60 | 2% | -6% |
| Denmark | 57 | 58 | 1% | 2% |
| Others | 572 | 589 | 15% | 3% |
| Total | 3,797 | 3,955 | 100% | 4% |

Source: *EY's EIM 2014.*

### Top 15 countries by FDI job creation

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| United Kingdom | 30,311 | 27,953 | 17% | -8% |
| France | 10,542 | 14,122 | 8% | 34% |
| Poland | 13,111 | 13,862 | 8% | 6% |
| Russia | 13,356 | 13,621 | 8% | 2% |
| Serbia | 10,302 | 12,179 | 7% | 18% |
| Spain | 10,114 | 11,118 | 7% | 10% |
| Germany | 12,508 | 10,350 | 6% | -17% |
| Turkey | 10,146 | 8,776 | 5% | -14% |
| Ireland | 8,898 | 6,895 | 4% | -23% |
| Romania | 7,114 | 6,157 | 4% | -13% |
| Czech Republic | 5,508 | 5,609 | 3% | 2% |
| Bulgaria | 4,379 | 5,505 | 3% | 26% |
| Hungary | 3,941 | 3,879 | 2% | -2% |
| Belgium | 2,939 | 3,536 | 2% | 20% |
| Slovakia | 6,299 | 3,493 | 2% | -45% |
| Others | 20,966 | 19,288 | 12% | -8% |
| Total | 170,434 | 166,343 | 100% | -2% |

Source: *EY's EIM 2014.*

50 in 2013, corresponding overall to 10% more jobs created by FDI year on year. This growth was led by large business services (+71%) and retail projects (+83%).

**Belgium** received 175 FDI projects, up 4% from 2012. The growth was essentially due to logistics projects (34 in 2013 compared with 21 in 2012). In parallel, job creation through FDI projects in Belgium increased by 20% to more than 3,500 jobs in 2013, driven by a few large projects in the clothing and air transport sectors.

**The Netherlands** pulled in 161 decisions in 2013, unchanged from 2012. Growth in the number of FDI projects in headquarters and business support services was balanced by a decline in the number of all other types of operations. However, the investments were of a larger scale and created 71% more jobs than those in 2012. US and Indian companies drove this trend with sizeable investment in the information and communication technology (ICT) sector.

A newcomer to the top 10, **Finland** has improved its appeal to international businesses and captured 108 investments in 2013, up by a remarkable 44% from last year. Finland climbed three positions to become the ninth among the top investment destinations in Europe. As in the past years, growth in FDI was mainly driven by new sales and marketing operations, especially in software and business services. The large share of sales and marketing offices also explains why FDI projects remained relatively small (six jobs per project on average) compared with the rest of Europe (42 jobs per project).

## Central and Eastern Europe: an uneven battle

Suffering from sluggish growth and unstable economic conditions, many of CEE's leading FDI destinations saw a decline in 2013. On the whole, FDI projects in CEE declined by nearly 5%, while job creation fell by 4%.

The CEE region witnessed a decline in its key investment engine, the automotive sector, losing nearly 8% of its market share in 2013. Yet overall, manufacturing projects retained their prime position in the CEE with 410 projects (+3% compared with 2012). The region also recorded a 55% increase in R&D operations, confirming a slow shift up the global value chain.

**Turkey** was a clear exception to this decline. The country had a successful year, with 98 projects started (up from 95 in 2012). Affirming itself as Europe's new hotspot for large manufacturing projects, the country drew several large investments in the automotive sector. The US and Germany remain the two largest investors in Turkey, accounting for 24% and 16% respectively.

## CEE vs. WE

| FDI projects | 2012 | 2013 |
|---|---|---|
| CEE | 835 | 796 |
| WE | 2,962 | 3,159 |

| FDI job creation | 2012 | 2013 |
|---|---|---|
| CEE | 85,634 | 82,181 |
| WE | 84,800 | 84,162 |

Source: *EY's EIM 2014*.

**Russia** received 114 FDI projects, down 11% from the previous year. Still, it managed to regain its top position in the CEE region, as Poland saw an even steeper decline. Although the total number of projects fell, Russia attracted several key investment projects in the automotive and heavy industry sectors, such as chemicals and large transport equipment. In terms of its clients, Russia saw a 17% decline in investments originating in the US. Japanese companies, by contrast, invested in 14 projects during 2013, up from just 9 in 2012.

In **Serbia**, job creation increased by 18%, despite a 19% decline in FDI projects, making the country the fifth-largest largest recipient of FDI jobs in Europe in 2013. Italy and the US were the top two investors in the country, with projects in the automotive and textiles sector.

The two top central European destinations, **Poland** and the **Czech Republic,** are facing a different competition. Poland attracted 107 projects in 2013, making for a year-on-year decline of 28%. FDI job creation, however, increased by 6%. More than a half of the projects were manufacturing operations, with automotive and plastics and rubber as leading sectors. Poland was also the number one destination in the CEE region in terms of R&D projects, driven essentially by international software companies. In the Czech Republic, FDI projects were down 6% from 2012, while job creation remained stable (2%). Driven by geographic proximity, German companies were the largest investor in the Czech Republic, accounting for over a third of investment projects. With 23 projects altogether, automotive and other transport equipment industries remain key drivers of FDI.

# Europe's balanced mix of sectors and activities

## Top activities by FDI job creation

| | FDI projects 2013 | % change from 2012 | FDI job creation 2013 | % change from 2012 |
|---|---|---|---|---|
| Sales and marketing | 1,899 | -2% | 17,519 | -11% |
| Manufacturing | 1,018 | +5% | 89,117 | -12% |
| R&D | 290 | +23% | 12,523 | +64% |
| Logistics | 284 | +20% | 19,481 | +48% |
| Business support services | 278 | +37% | 20,927 | 10% |
| Headquarters | 155 | -8% | 6,514 | -26% |
| Education and training | 31 | -14% | 262 | -68% |

Source: EY's *EIM 2014*.

### Marketing activities dominate project numbers while manufacturing creates jobs

In 2013, sales and marketing offices (i.e., corporate representative offices of regional, national or international reach) made up for almost half of the total FDI projects in Europe — although they declined by 2% over the course of the year. The UK (25%) and Germany (23%) together accounted for nearly half of these activities. France was the third-largest largest recipient, but registered a decline of 6%.

## Growth in manufacturing projects

2012–13

| | 2012–13 |
|---|---|
| France | 31% |
| Germany | 21% |
| UK | 3% |
| Russia | -8% |
| Hungary | -9% |
| Czech Republic | -11% |
| Poland | -14% |

Source: EY's *EIM 2014*.

In 2013, the manufacturing function attracted 1,032 (26%) of the total FDI projects. It accounted for more than half of the jobs created on the continent. Manufacturing projects were up by 5% from the previous year. This corresponds to our survey responses: 89% of respondents are expected to be manufacturing in Europe in 10 years' time.

FDI projects in manufacturing increased in all the three largest European economies, but this increase was partially offset by a decline in such projects in the principal CEE destination countries. Overall, job creation in the manufacturing domain declined by 12% over 2012. This was owing to a steep decline in the manufacturing projects in CEE countries (-16%) and relatively lesser decline in Western European economies (-2%).

**Top 15 sectors by FDI projects**

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| Software | 402 | 509 | 13% | 27% |
| Business services | 699 | 483 | 12% | -31% |
| Machinery and equipment | 287 | 309 | 8% | 8% |
| Automotive | 270 | 244 | 6% | -10% |
| Other transport services | 203 | 200 | 5% | -1% |
| Chemicals | 174 | 167 | 4% | -4% |
| Electronics | 168 | 165 | 4% | -2% |
| Food | 148 | 159 | 4% | 7% |
| Financial intermediation | 144 | 156 | 4% | 8% |
| Pharmaceuticals | 89 | 141 | 4% | 58% |
| Plastic and rubber | 125 | 123 | 3% | -2% |
| Electrical | 112 | 114 | 3% | 2% |
| Fabricated metals | 76 | 92 | 2% | 21% |
| Other transport equipment | 52 | 88 | 2% | 69% |
| Scientific research | 45 | 88 | 2% | 96% |
| Others | 803 | 917 | 23% | 14% |
| Total | 3,797 | 3,955 | 100% | 4% |

Source: *EY's EIM 2014.*

**Top 15 sectors by FDI job creation**

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| Automotive | 48,368 | 47,962 | 29% | -1% |
| Software | 6,942 | 12,906 | 8% | 86% |
| Business services | 19,418 | 12,807 | 8% | -34% |
| Retail | 8,077 | 9,429 | 6% | 17% |
| Plastic and rubber | 6,558 | 8,653 | 5% | 32% |
| Machinery and equipment | 14,610 | 8,315 | 5% | -43% |
| Other transport services | 4,046 | 7,078 | 4% | 75% |
| Electrical | 4,825 | 6,694 | 4% | 39% |
| Financial intermediation | 3,439 | 4,611 | 3% | 34% |
| Chemicals | 5,315 | 4,399 | 3% | -17% |
| Food | 6,434 | 4,377 | 3% | -32% |
| Other transport equipment | 2,530 | 4,216 | 3% | 67% |
| Electronics | 7,286 | 3,842 | 2% | -47% |
| Fabricated metals | 3,585 | 2,871 | 2% | -20% |
| Pharmaceuticals | 3,661 | 2,557 | 2% | -30% |
| Others | 25,340 | 25,626 | 15% | 1% |
| Total | 170,434 | 166,343 | 100% | -2% |

Source: *EY's EIM 2014.*

## Emerging market companies rush to capitalize on Europe's R&D strength

In 2013, R&D was one of the hottest areas for foreign investment in Europe. FDI projects in the R&D function increased by a solid 23%. Investors see Europe as a center for their research and innovation activities: 45% of respondents to our survey think R&D will drive Europe's FDI activities in the coming years.

The UK, Germany and France were the three largest recipients of R&D investments in 2013, with a share of 22%, 18% and 16% respectively. Job creation from R&D-oriented FDI projects in Europe increased by a stark 64%. However, this was result of a few large-ticket projects by companies such as Ford, Jaguar Land Rover (Tata Group) and Allstate Corp. During the year, approximately one in three R&D-oriented FDI projects in Europe was from a US multinational. However, companies from emerging markets are also increasingly investing in Europe to exploit the continent's strength in scientific development. R&D-oriented FDI projects in Europe from India and China more than doubled in 2013, reaching 13 and 20 projects respectively. China's Huawei Technologies was one of the largest investors in R&D in Europe overall.

## Software and business services: a weaker leadership

Business services and software continued to be the top two FDI sectors, together accounting for 25% of the total FDI investment decisions in Europe in 2013. FDI projects in the business services sector in Europe declined in almost all top European destinations, with only Ireland witnessing an increase in projects.

Software, on the other hand, fared slightly better. In 2013, the UK, Germany and France together received 64% of all FDI in the software industry. More than 45% of FDI projects in the software sector in Europe originated from US-headquartered companies. With a 6% share, Indian software companies were a distant second. They invested in 29 projects in Europe, up from just 13 in 2012. More than half of these were directed toward the UK.

## Pharmaceutical and scientific research: performers of the year

In 2013, the European pharmaceutical sector attracted 141 FDI projects, up 58% from 2012. More than 40% of these were manufacturing projects, while one in three was in sales and marketing. In terms of destination, Germany was the leader with 32 decisions. France ranked second (20 projects, up from just 8 in 2012), the UK ranked third with 19 projects, while Ireland and Belgium received 10 projects each.

Nearly 40% of our survey respondents quoted Europe's research and innovation capacity as its key differentiator. This is supported by the continent's performance in scientific research in 2013, its best year yet: 88 projects from foreign companies, almost doubling since 2012. Germany was the largest recipient (23 projects) of these FDI projects, with France (11 projects) ranking second.

### Automotive: Europe's job machine is pulling back

In 2013, the automotive industry in Europe attracted 244 FDI projects, down 10% from previous year. While the automotive industry accounted for 6% of the total FDI projects, it made up nearly 30% of the job creation.

After losing out to CEE economies in 2012, Western European countries re-emerged as the leading recipients of automotive projects in 2013. In fact, automotive projects in Western Europe increased by 4%, compared with a 22% decline in CEE. German car manufacturers and suppliers remained the largest investor in Europe's automotive destinations in 2013, followed by the US, Japan, India and France. Chinese companies also invested in 11 automotive projects in 2013, creating more than 5,000 jobs.

## FDI projects in the automotive sector

**By origin country**

| | 2014 |
|---|---|
| Germany | 44 |
| US | 40 |
| Japan | 28 |
| India | 16 |
| France | 15 |

**By destination country**

| | 2014 |
|---|---|
| Germany | 50 |
| UK | 41 |
| Czech Republic | 19 |
| Russia | 16 |
| Poland | 14 |

Source: EY's *EIM 2014*.

# EY's viewpoints

## Life sciences need more confidence to invest in European R&D

**Patrick Flochel, Global Pharmaceutical Sector Leader, EY Switzerland**

Increased inward investment in the European life sciences sector is always good news. But where is that investment going? Europe's life sciences R&D and innovation infrastructure is justly renowned, so it should be of some concern to European policy-makers that the primary targets for investment are manufacturing and marketing, rather than research.

Europe is far from being the cheapest place in the world to conduct R&D, and it faces growing competition from other regions that are equally hungry for inward investment and are keen to create incentives for companies.

Europe must constantly strive to demonstrate that investments in life sciences can offer an attractive return on investment, by facilitating market opportunities, by guaranteeing the quality of research results and by creating partnering opportunities.

Product pipelines in life sciences are healthy, but the industry has concerns about the difficulty of getting new products to market, particularly in Europe. Demand for new treatments remains high — we are living longer, and chronic diseases are more prevalent. But, more than ever, payers in health care systems are insisting on greater value for money and demonstrably better health outcomes before they will purchase new products.

Globalization has achieved many things, but it has not so far led to harmonization between health care regulatory bodies. Life sciences companies are spending more and more time and money on dealing with this increasingly complicated payer network.

There is no doubt that life sciences companies can make a bigger contribution to improving the quality and cost-effectiveness of health care in Europe. But in turn, European governments will need to reduce the burden of developing new products. A more streamlined, harmonized Europe will give the life sciences industry more confidence to invest in European R&D.

# Expect fierce competition in shared service

Paul Wood, Partner, Financial Transformation, EY France

The concept of shared service centers (SSCs) is now over 20 years old. In that time, SSCs have evolved from being country-based, simple processing teams into global, multifunction hubs.

SSCs are playing an important role in the European economy. This is particularly true in Eastern Europe, where many cities have become part of the global SSC industry.

These cities are competing with each other to attract investment in new or expanding SSCs, and their attractiveness is judged on factors such as infrastructure, labor rates and the availability of people with the necessary functional and language skills.

The market is ruthless. First-tier and capital cities, such as Warsaw, Budapest and Bratislava, are becoming less competitive compared with second-tier cities.

Along with selecting the right location, there are a number of key steps companies need to consider in order to ensure their SSCs remain efficient and effective.

They must establish the right operating model. This usually means developing a hybrid model of organization to coordinate their in-house SSCs and third-party SSCs. Companies must also extend the scope of their SSCs, in terms of both the physical geography served and the processes and functions carried out, particularly in procurement, human ressources and IT.

To ensure optimum customer service and value, businesses must establish the right governance model for their SSCs. And they must secure all the appropriate technology and process improvements to make sure that their SSCs run with the minimum number of people necessary to be efficient.

Overall, we are seeing an increasing trend toward the creation of global multifunction SSCs around the world. But Europe, especially Eastern Europe, has a strategic role to play in the continued expansion of this dynamic sector.

# European automakers must collaborate to compete

Peter Fuβ, Partner and Senior Advisory Partner, Automotive GSA, EY Germany

In order to compete with global automotive players from the Americas and Asia-Pacific, the European automotive sector needs to implicitly focus on some significant strategic initiatives.

Many automotive companies need to develop a more global production footprint to achieve more profitable growth in emerging markets, particularly in Asia-Pacific.

If they are to remain competitive on cost, automakers must also improve their production facilities in Europe. European production plants need more automation, lower energy consumption and more flexible working models for employees.

But if European automotive firms are to secure a high share of end-consumers' mobility spending, then perhaps the largest share of investment will need to go into developing advanced power-train technologies and business models based on mobility service concepts. To make these investments a success, automakers will also need to set up joint operations with many non-automotive companies, such as ICT and internet firms.

And to remain the global innovation leader in mobility, the European automotive industry needs to have strong automotive companies in all the big European countries, including France, Italy, Germany and the UK.

The European automotive industry can be proud of its unique diversity in culture, design, technology and mobility concepts. But this is not something that is automatically a given for the future. To deliver the new design concepts and technologies it needs, the sector must transform its business models to encourage more combined European entrepreneurship. While not every automotive company needs to reinvent the wheel, more pan-European collaboration across sectors is required if Europe is to stay competitive in the global automotive market.

# Sources of FDI: rapid-growth economies are more bullish on Europe

**The US remains the source of a quarter of FDI projects in Europe**

The US continued to be the single leading investor in Europe, accounting for approximately a quarter of inward investment projects and job creation. In 2013, companies from the US invested in 1,027 projects (-2%) creating 38,718 jobs (+0.5%). Companies including Amazon.com, Ford Motor, IBM and Hewlett-Packard were some of the leading job creators in Europe.

The UK (279 projects) continued to be the key target of US-based companies, while Germany (142 projects) overtook France (127 projects) as the second-largest recipient of US investment. In terms of sectors, nearly 40% of US FDI was made in software and business services sectors. Machinery and equipment ranked third with 65 projects, up from 50 projects in 2012. FDI projects from US companies also increased in the chemicals, electronics and pharmaceuticals sectors.

**Top 15 origin countries by FDI projects**

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| USA | 1,045 | 1,027 | 26% | -2% |
| Germany | 406 | 386 | 10% | -5% |
| United Kingdom | 255 | 228 | 6% | -11% |
| France | 198 | 220 | 6% | 11% |
| Switzerland | 184 | 204 | 5% | 11% |
| Japan | 176 | 180 | 5% | 2% |
| China | 122 | 153 | 4% | 25% |
| Italy | 104 | 116 | 3% | 12% |
| Netherlands | 103 | 114 | 3% | 11% |
| Sweden | 107 | 106 | 3% | -1% |
| India | 74 | 103 | 3% | 39% |
| Spain | 107 | 96 | 2% | -10% |
| Austria | 79 | 81 | 2% | 3% |
| Finland | 43 | 70 | 2% | 63% |
| Canada | 65 | 58 | 1% | -11% |
| Others | 729 | 813 | 21% | 12% |
| Total | 3,797 | 3,955 | 100% | 4% |

Source: *EY's EIM 2014.*

**Top 15 origin countries by FDI job creation**

| | 2012 | 2013 | Share (2013) | Change |
|---|---|---|---|---|
| USA | 38,526 | 38,718 | 23% | 0% |
| Germany | 30,100 | 22,477 | 14% | -25% |
| France | 11,356 | 11,952 | 7% | 5% |
| Japan | 8,171 | 9,367 | 6% | 15% |
| China | 4,619 | 7,165 | 4% | 55% |
| India | 6,432 | 6,935 | 4% | 8% |
| United Kingdom | 6,255 | 5,430 | 3% | -13% |
| Italy | 12,794 | 5,384 | 3% | -58% |
| Switzerland | 5,424 | 4,336 | 3% | -20% |
| Canada | 1,547 | 4,324 | 3% | 180% |
| Turkey | 824 | 4,060 | 2% | 393% |
| Austria | 3,072 | 4,013 | 2% | 31% |
| Finland | 1,143 | 2,852 | 2% | 150% |
| Denmark | 2,462 | 2,689 | 2% | 9% |
| South Korea | 1,029 | 2,533 | 2% | 146% |
| Others | 36,680 | 34,108 | 21% | -7% |
| Total | 170,434 | 166,343 | 100% | -2% |

Source: *EY's EIM 2014.*

### Intra-European investment: more projects, fewer jobs

On the whole, intra-European investment accounts for the majority of FDI in the continent. Ten European countries appear in the list of top 15 source countries. In 2013, intra-European projects accounted for 54% of the total FDI projects in Europe; these projects increased by 4% over 2012. However, investments from European companies were relatively smaller, and job creation from these projects declined by 12%. German companies (18%) were important investors within Europe, followed by the UK (11%), France (10%), Switzerland (10%) and Italy (5%).

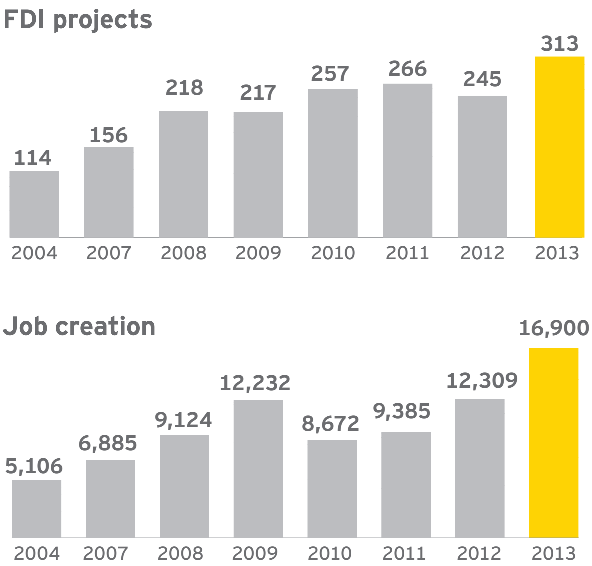
### Investment from the BRICs is at an all-time high, although it is uneven

In 2013, Europe attracted 313 projects from companies based in the BRICs, up 28% from 245 projects in 2012. The job creation from BRIC companies also increased by 37%, to reach 16,900 jobs. As a result, investment (both FDI projects and jobs creation) from these countries reached an all-time high in 2013. Rapid-growth economies generate an increasing number of fast-growing multinationals. As a result, the investment-promotion agencies of many European countries have increased their efforts to pull in investments from these companies.

China is a clear leader among BRIC investors, with 153 FDI projects (49%) creating 7,135 jobs. In 2013, FDI projects from China increased by 25%, while job creation was up by 55%. India ranked second, with 103 projects (33%) creating nearly 7,000 jobs. FDI projects from India increased by 39% and job creation by 8%.

However, the increase in BRIC investments in Europe has not been evenly spread across the continent. Investment from BRICs remains highly concentrated in the UK and Germany, which together capture 62% of all investment from these countries.

## FDI from the BRICs




Source: EY's *EIM 2014*.

# Europe's global cities: a new attractiveness magnet

In this year's report, London, Paris, Berlin, Frankfurt and Munich were once again chosen by respondents as the top five European investment destinations. However, the full story for these cities is slightly more complex.

### London and Paris: reality matches perception

More than half of our respondents named London the most attractive city in Europe for investment, up 4% from last year's results. Almost twice as many respondents favored London over its nearest competitor, Paris, and this gap has widened over the years. Investors recognize London's international culture, which is clearly pro-business, global and accessible.

Twenty-nine percent of our respondents chose Paris over London, making it Europe's second most, attractive destination for FDI according to our survey. Again, the city's business culture (30%) was seen as its most attractive feature, followed by its skilled labor force (24%). However, its attractiveness for foreign investors declined by five percentage points in this year's survey, which follows the broader decline in investors' optimism about FDI in France. Our reality data also largely echoes these findings, showing Paris and the Ile-de-France region as Europe's second-highest recipient of FDI investment in 2013, although there was also a decline of 4% from 2012.

## Europe's urban appeal

What are the three most attractive European cities?

| | 2014 |
|---|---|
| London | 54% |
| Paris | 29% |
| Berlin | 24% |
| Frankfurt | 15% |
| Munich | 11% |
| Barcelona | 8% |
| Amsterdam | 7% |
| Madrid | 5% |
| Hamburg | 5% |
| Moscow | 5% |
| Brussels | 5% |
| Prague | 5% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

### What makes these cities attractive?

| Characteristics | Overall | London | Berlin | Paris |
|---|---|---|---|---|
| International business culture | 38% | 1 | 2 | 1 |
| Reputation of local companies or personalities | 20% | 2 | 1 | 3 |
| Local labor skill | 18% | 4 | | 2 |
| Infrastructure programs | 18% | | 4 | 4 |
| Quality of their universities | 14% | 3 | | |
| Labor costs | 12% | | | |
| International events | 10% | | | |
| Innovation capacity | 10% | | 3 | |
| Specific strategies to develop innovation | 9% | | | |
| Innovative business parks | 8% | | | |

Source: *EY's 2014 European attractiveness survey* (total respondents: 808).

Viewpoint

# Leveraging expertise and talent to create a city of tomorrow

"Place creation is about far more than just physical developments."

**Sir Richard Leese**
Leader of the Manchester City Council and Deputy Leader of the Greater Manchester Combined Authority (GMCA)

Manchester is ambitious, visionary and passionate about the future. We're investing billions of pounds to create inspiring, connected business environments and ensure that the region continues to be a draw for the world's biggest brands while driving indigenous business growth. Developments such as Airport City Manchester, a dedicated Enterprise Zone and the UK's first Airport City; MediaCityUK, Europe's largest purposebuilt media hub; the Sharp Project; Manchester Science Park's CityLabs and the £61m National Graphene Institute will help the city continue to attract investment in the creative and digital, life sciences and advanced manufacturing sectors.

Place creation is about far more than just physical developments. Drawing on robust economic research, Manchester has focused on key sectors and international markets that leverage our internationally-recognized science assets and related skills. Our global strengths in media, digital and technology; life sciences; and advanced manufacturing and materials coupled with support from our largest sector, financial and professional services, have helped us attract over 2,000 foreign-owned companies. Google, the BBC, Hitachi, Cargill, Hologic Gen-Probe, Siemens, BNY Mellon and Beijing Construction Engineering Group are among the diverse international companies that have chosen to locate or expand in Manchester, with a growing number making Manchester their European headquarters.

These investments are attracted by our talent pool, access to markets and a competitive cost base. Indeed, one study has ranked Manchester Europe's most competitive business city for the last three years.

Within the UK, Manchester secures more FDI than any other city outside London. Since 2007, the region has attracted over 550 inward investment projects. Our economy generates £48bof gross value added, 5% of the UK total.

Meantime, our multibillion pound investment in transport infrastructure enables people to get to work quickly and gives us deeper access to a wide regional talent pool. Over 7.2 million people live within an hour's commute of the city, which has four world-class universities and there are 22 universities within the wider catchment area, making this the most dense concentration of higher education in Europe.

Our efforts will be complemented by plans for the High Speed Two (HS2) rail network, a nationally backed £40b infrastructure improvement program that will allow travel between Manchester and London in just 68 minutes. And the £600m Northern Hub rail development will improve connectivity between the cities and towns of the North and stimulate a further £4.2b of economic benefits.

## Top 10 urban areas by FDI projects

| | 2014 | 2012 | Share (2013) | change | Jobs (2013) | Share of FDI projects in country |
|---|---|---|---|---|---|---|
| Greater London | 313 | 380 | 10% | 21% | 3,919 | 48% |
| Ile de France (Paris) | 174 | 173 | 4% | -1% | 4,705 | 34% |
| Dusseldorf | 84 | 105 | 3% | 25% | 1,226 | 15% |
| Darmstadt | 67 | 94 | 2% | 40% | 981 | 13% |
| Uusimaa (Helsinki) | 61 | 90 | 2% | 48% | 419 | 83% |
| Cataluna (Barcelona) | 116 | 85 | 2% | -27% | 5,158 | 38% |
| Stuttgart | 81 | 80 | 2% | -1% | 811 | 11% |
| Freiburg | 71 | 79 | 2% | 11% | 597 | 11% |
| Dublin | 72 | 69 | 2% | -4% | 4,615 | 62% |
| Istanbul | 59 | 62 | 2% | 5% | 2,536 | 63% |
| Others | 2,699 | 2,738 | 69% | 1% | 4,705 | - |
| Total | 3,797 | 3,955 | 100% | 4% | 166,343 | - |

Source: *EY's EIM 2014*.

### German cities: a powerful cluster of "global hubs"

Our survey also confirms that German cities are favored locations for foreign investors. This is consistent with the country's rising attractiveness rankings over the past few years. In last year's survey, three German cities – Berlin, Frankfurt and Munich – featured in the list of Europe's top 10 most attractive locations. Hamburg was added to the list this year. Compared with last year, this represents an increase of 12 percentage points in the investment attractiveness of these four cities.

At the top of the rankings, Berlin is favored by 24% of our respondents, making it Europe's third most attractive city for FDI investment, although data from our European Investment Monitor (EIM) 2014 reveals that Germany's capital does not even feature in the list of top 15 cities for FDI investment in Europe. In this context, Berlin is less an economic powerhouse than an administrative and creative hub. Why do investors perceive Berlin as a key destination? The answer probably lies in the city's innovation capacity according to 19% of respondents; companies such as SAP and Bayer have established R&D capabilities in Berlin. The city is also fast becoming a hub for technological innovators that are increasingly getting attention from leading venture capital investors. For instance, 6Wunderkinder, a start-up that created an app to manage to-do lists, received a US$19m investment from Sequoia Capital. Similarly, Bill Gates led a US$35m investment in ResearchGate, a social network for scientists. The list is big. This confirms its ambition to become one of Europe's leading metropoles for digital start-ups. In addition, easy availability of talent and low rental rates and salaries make the city a favorable location for tech companies.

### Eastern Europe's cities: a lackluster performance

The perceived attractiveness of many cities in the CEE region has fallen. This matches the weaker attractiveness of many CEE countries, including Poland, the Czech Republic and Romania. For instance, Moscow has slipped from 8th to 10th position on the FDI investors' list of the most attractive cities in Europe. Prague and Warsaw have moved down to 12th and 14th places respectively.

Viewpoint

# Building the world of tomorrow

"Our main and constant aim is to create and perpetuate an ecosystem that stimulates innovation and growth."

**Jean-Paul Huchon**
President, Ile-de-France Regional Council

Attractiveness is a beautiful word. It arouses pleasurable thoughts and new visions. It makes you want to be part of the world we picture for the future. Who does not want to share in building the world of tomorrow?

This is probably why the biggest challenge for every state nowadays is to promote and reinforce its attractiveness.

As EY's surveys show, tough times arising from the economic crisis have not destroyed investors' faith in the European continent. Within Europe, the Île-de-France region remains a key and first-class destination for investors, and that is something which gives me great pleasure and that I am very proud of. Ile-de-France generates no less than 30% of French GDP and accounts for 50% of investments nationwide — a proportion that is rising — although home to only 19% of the French population. It constitutes the beating heart of France in terms of its economy, industry and tourism.

The Île-de-France region is strongly committed to building a genuine "Silicon Valley à la française", and we have a lot of strengths that will help us reach our goal. The Île-de-France economy is particularly diverse and multipolar, which I believe are great virtues. Thanks to our reliable and efficient transport infrastructure, though our region is large, it is rich in high-profile, well-connected economic areas. And to capitalize on our strengths, we organize our business activities around competitiveness clusters that are at the cutting edge for technology, creativity and innovation. Those are the elements that we believe will make our dreams come true.

Our main and constant aim is to create and perpetuate an ecosystem that stimulates innovation and growth. This is at heart of Ile-de-France's outline development plan, the (Schéma Directeur de la Région Ile-de-France — SDRIF) that we adopted in October. It brings together attractiveness and solidarity, excellence and proximity. In other words, the perfect combination to shape model territories, with town planning that is consistent socially and economically, that can overcome traditional barriers to ensure people really feel connected.

As a national capital region, we are home to world-renowned scientific and technical clusters and business centers such as La Défense, the Plateau de Saclay, Roissy and La Plaine Saint-Denis, among many others. All of them welcome new investors and bold projects with open arms. For only in this way, working with all our territories and partners, can we, together, build a wonderful new world for tomorrow.

# Future

## 54%

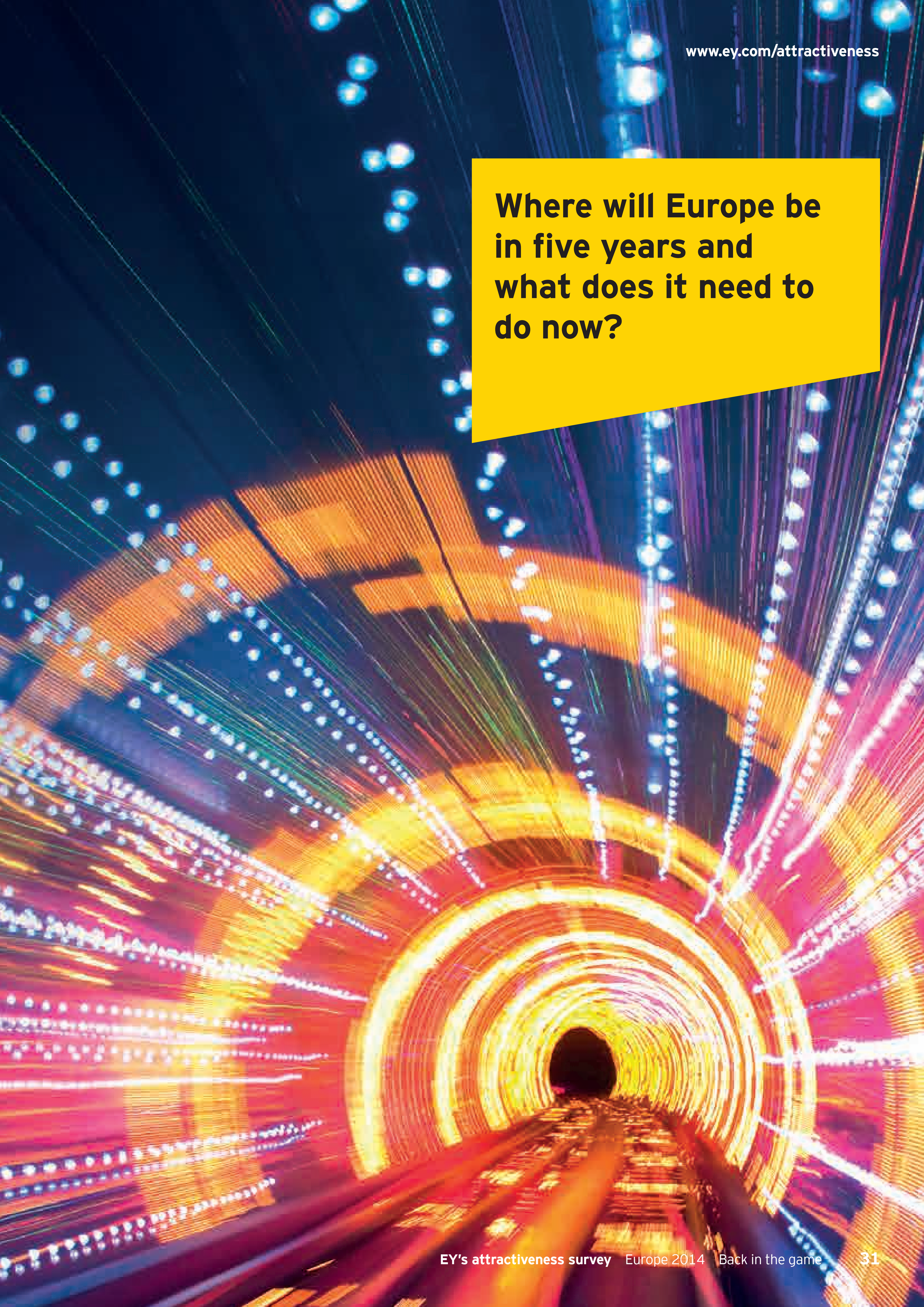
Europe is not so inadequate after all: 54% of respondents think that Europe's attractiveness will improve in the future, up 15 percentage points from 2013.

## 45%

At the "high end" of the global value chain, R&D will drive future investments in Europe, according to 45% of respondents. The digital and health transitions are seen as key drivers of Europe's attractiveness, but green growth is still a distant reality.

## Success factors

First, success requires adequate talent that is mobile and international. Second, there is a need to improve Europe's competitiveness with more integration and less regulation. Third, European cities should be used to showcase the best of Europe.



# Where will Europe be in five years and what does it need to do now?

# Investors speak: Europe is not so inadequate after all ...

## Investors are significantly more optimistic about Europe's future

How do you anticipate the evolution of Europe's attractiveness over the next three years?

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Improve | 38% | 39% | 54% |
| Stay the same | 39% | 38% | 33% |
| Decrease | 22% | 23% | 12% |
| Can't say | 2% | 1% | 1% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

The outlook for Europe has brightened in the past year. Boardroom discussions once again bring up improving demand, sales and margins rather than recession and austerity. Companies are going public again, with initial public offerings in the UK, the Netherlands, Denmark and Spain raising €9.34b between January and March 2014, compared with €6.93b raised in the US. Even France has experienced an "awakening" with its recent Competitiveness Pact and large mergers and acquisitions in the telecom and construction sectors, for instance.

Although it is fragile, this new optimism is reflected in our survey results. According to 54% of respondents, Europe's attractiveness as an investment destination will continue to improve in the next three years. This is a significant improvement (+15 percentage points) on last year's report. Only 12% have a pessimistic view and 33% were neutral. Asian investors are even more upbeat about Europe's prospects, with 60% forecasting an improvement over the next three years.

Furthermore, there are signs of improving competiveness in some European countries. Shipping companies are posting long-awaited reports of rising freight volumes in countries such as Ireland, Portugal and Spain, where the pace of reform, even in politically sensitive areas such as labor regulation and welfare, has been faster than in some other EU countries. Businesses are taking advantage of the improved climate and negotiating labor contracts or altering international sourcing strategies. However, on the whole, Europe still underperforms when compared with other developed and emerging markets.

Our respondents emphasized innovation and technology (18%, +4 points) as the first step for Europe to improve its long-term prospects. They suggested an enhanced focus on education and training (11%) as the next step. This is well illustrated by the increasing integration of European industries into global value chains, which will help to strengthen the region's industrial base. What is required is open and connected product and service markets, investment in research and innovation, and a workforce with appropriate qualifications. Stabilizing economic governance and reducing debt topped the investor suggestions in our last survey, and Europe recorded noticeable progress on these fronts.

Viewpoint

# Bringing Europe together to earn its place in the world

"We need to design European-scale businesses in key sectors of each industry and consolidate activities within them on a European scale."

**Jacques Guers**
Corporate Vice President Global Accounts Operations, Xerox

When I think about the future of Europe, four issues spring to mind.

The first concerns communication. When will politicians stop using the EU as the excuse for all that is wrong with life today? Constantly taking the easy path of blaming "Europe" misleads the people of Europe about the nature of our difficulties and avoids responsibility for finding solutions. Moreover, this extraordinary lack of courage and lack of long-term positive vision are, I believe, the two main causes for the current disarray over the role and future of the European Union.

Secondly, I we need to think differently about economic issues. The lack of common understanding of the need for economic convergence across the EU leads to short-term and selfish behavior in many European countries. Rather than envying or blaming other European countries, we would do better to spend time benchmarking each other, with the goal of creating a 10 to15-year road map to full economic convergence.

Next, we need to tackle the business environment. Today's discrepancies in the competitive landscape, both within the EU and between the EU and other countries and regions, create a business environment in which it is it is very difficult to attract or retain investment, especially in company headquarters. We need more pan-European industrial projects – such as that within the aerospace industry typified by Airbus Group. We need to design European-scale businesses in key sectors of each industry and consolidate activities within them on a European scale. In this field, fragmented national champions are no longer an option: we need businesses that are more European, not less.

Finally, we need to develop greater knowledge and understanding of Europe among its people. I think Europe started to mean something for me personally 40 years ago, when I could travel around it with a single ticket: the InterRail Pass. Drawing on this simple idea, a program that would allow our youngest generation to move, study, live, work, and even buy and sell throughout Europe regardless of frontiers would bring about a huge shift in the mindset of Europeans. Today, the Erasmus program helps students study in other European countries. But in many ways, adult life only starts after graduation. To complete my vision for the enhanced integration Europe needs, we should launch an Erasmus program for European workers.

# Investors see Europe at the "high end" of the global value chain

It is obvious that investors expect Europe to attract investments at the higher end of the value chain, and feel that this is where its strengths and comparative advantages are best utilized. An increasing number of investors acknowledge that the region's research, innovation and talent are its main strengths. For instance, Heinz has opened its new European Innovation Center in Nijmegen, the Netherlands. It is the company's largest R&D facility outside of the US. Similarly, after it selected the UK as its innovation hub for Europe, US health care multinational Johnson & Johnson announced that it will open offices in five British cities to identify promising medical research in universities in the area. These are only 2 out of nearly 1,250 FDI announcements in R&D between 2009 and 2013.

**The majority of our respondents think that R&D will be the driving force in Europe's future FDI attractiveness.**

However, the reality of investment in Europe diverges quite widely from investors' perceptions. While R&D projects are increasing in Europe, they represent only around 7% of the total number of FDI decisions on the continent. In 2013, nearly half of the FDI projects in the region were in the sales and marketing function, and 27% were in manufacturing.

## R&D will drive Europe's future FDI

**Which business functions will attract the most investment in Europe in the coming years?**

| | 2014 |
|---|---|
| Research & Development | 45% |
| Manufacturing | 15% |
| Sales and marketing office | 12% |
| Headquarters | 11% |
| Logistics centers | 10% |
| Back office | 4% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

### Focus on innovation-intensive sectors

Our respondents overwhelmingly see the ICT sector as a key driver of growth in Europe in coming years. Chinese telecom giant Huawei Technologies Co. has announced that it will increase its number of employees by 1,000 every year over the next five years — it currently has 7,700 workers in Europe and cites Europe's investment-friendly and stable environment as key reasons for this planned expansion.

## ICT and pharma seen as drivers of European growth in the future

**Which business sectors will drive European growth in the coming years?**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| ICT | 33% | 31% | 33% |
| The pharmaceutical industry and biotechnologies | 25% | 23% | 19% |
| Energy (including nuclear energy) and utilities | 23% | 28% | 24% |
| Cleantech | 21% | 20% | 26% |
| BtoB services, excluding finance | 20% | 19% | 15% |
| Transport industry and automotive | 19% | 14% | 13% |
| Bank, finance and insurance | 15% | 18% | 13% |
| Consumer goods | 13% | 14% | 12% |
| Logistics and distribution channels | 12% | 10% | 9% |
| Real estate and construction | 7% | 8% | 7% |

Note: upward arrow represents an increasing trend. Source: EY's *2014 European attractiveness survey* (total respondents: 808).

Viewpoint

# Regaining global leadership in life science

"One of the first priorities must be to respond adequately to the health needs of our aging societies."

**Bruno Strigini**
President, MSD, Europe and Canada

I believe that Europe is, and will remain, a strong and essential player on the international stage.

I do not share the declinist mindset that sometimes seems to prevail in Europe. Europe has a long and vibrant history and is built on strong democratic values. It has some of the best academic centers anywhere in the world, and arguably some of the best health care systems. As a result, the large European population is generally healthy and well educated. These are key competitive advantages for the 21st century.

Europe has also developed some of the world's most productive and innovative industries. If I take as an example the industry that I represent — the health care industry — Europe is a research and innovation powerhouse. In fact, Europe invented pharmaceutical innovation and, today, it remains a global leader in the discovery and development of innovative therapies that save, extend and improve patients' lives throughout the world. This is the result of a strong network effect between health care systems, academic centers and pharmaceutical companies.

But we cannot afford to be complacent. Europe is faced with the rapid aging of its population, structural weaknesses in its social compact, and the rise of emerging markets that are closing in rapidly, both in terms of science and education.

The objective is, and must be, to stay productive and competitive, and one of the first priorities must be to respond adequately to the health needs of our aging societies.

Europe must implement an ambitious reform agenda that unlocks its economic growth potential and focuses on innovation and health. In that context, the work of the EC, including the Europe 2020 strategy and its Innovation Flagship initiatives, are key.

I believe we can achieve our economic goals by building on these strengths, in particular academic research and health care, with the aim of regaining global leadership in the life science industries.

To achieve these goals:

- Europe needs a thriving ecosystem built on public-private partnerships to foster pharmaceutical innovation throughout the value chain, from R&D to access for patients; for example, by supporting initiatives such as the EC and EFPIA Innovative Medicines Initiative, as well as early dialogue with regulators and payers.

- The EU needs to embrace a culture of innovation across its health systems, in particular by ensuring that innovative medicines are rapidly accessible to patients and fairly rewarded.

- Europe needs to make health a key investment for its future economic growth, by focusing its efforts and investments in better health outcomes and equal access to high-quality care for patients across Europe.

To conclude, I believe that Europe has all the ingredients to succeed. We hold our future in our hands, and our future will be shaped by our own decisive actions today.

The big question is whether Europe is ready to exploit the benefits offered by the digital revolution and to cope with future demands. Does it have adequate infrastructure to support the next wave in ICT — the rise in mobile technologies, cloud computing or big data? Does the region have the requisite skills? Governments need to act fast to create policies and ICT infrastructure that can support advanced technologies.

### Life sciences are becoming healthier

A quarter of our respondents see the pharmaceutical and biotechnology industry as the major driver of European growth in coming years, up two percentage points from last year's survey and six points from 2012. This is reflected in our 2013 FDI figures, which indicate an increase of 51% in FDI projects in Europe's pharmaceutical industry and 89% in scientific research. However, health care is the second-largest element of social spending in developed countries, and tightening public budgets could put unsustainable financial pressures on the industry.

### Automotive and logistics on the move

According to one in five investors, the automotive and transport industry will boost Europe's future growth. This is a five percentage point increase on last year's results, when only 14% of respondents voted for the sector. Thanks to improving consumer wealth, aging vehicles and discounts, investors have high hopes for Europe's transport and automotive industry, despite the challenges of the past five years.

European supply chains are another illustration of Europe's potential, according to 12% of our respondents, up 2% from last year. Globally, companies continue to outsource their logistics functions to cope better with increasingly complex supply chains, streamline their processes and implement efficiencies. In 2013, Europe received 264 logistics projects — up 11% from 2012. Logistics companies around the world can gear themselves up for the Transatlantic Trade and Investment Partnership agreement, which is expected to come into effect by 2015. Transatlantic shipments may increase at a rapid pace, creating significant opportunities for logistics service providers and manufacturers across a number of sectors.

### Europe's "green dream" still a distant reality

The sheen of the European cleantech sector has faded slightly, with 21% of respondents' votes this year, putting it in fourth position. In recent years, Europe has set ambitious targets in an attempt to become a low-carbon continent with the increasing use of renewable energy. However, slow and cumbersome administrative processes and a lack of efficient, pan-European incentives have impeded the progress of the green agenda. The weak economic climate has also hindered the development of new projects due to high capital costs and the significant associated risk. Additionally, environmental concerns have slipped down the political agenda as European countries struggle to generate much-needed growth.

Viewpoint

# Unleashing Europe's potential

"Europe's structures, processes, policy-making and governance need to be simplified to ensure we eliminate unnecessary costs and create a faster and more agile economy."

**Nani Beccalli**
President and CEO, GE Europe

We should not underestimate the achievements of the EU since its inception, but neither is this a reason for complacency. The creation of a single market with over 500 million consumers is, of itself, a significant achievement and crucial to Europe's competitiveness in an increasingly globalized marketplace. Yet Europe fails to exploit its size and scale to best advantage. We need to reduce the fragmentation that still exists in many sectors, including energy, transportation and services. For example, if the EU integrated its services sector, digital infrastructure and its energy sector, 2% would be added to its GDP. The reality is we need more, not less, Europe.

I remain ambitious for the EU because I believe that, even though much has been achieved, this is a story of untapped potential. Emerging from the economic crisis, we need a focused and realistically ambitious growth and reform strategy. This must be a priority for the new EC, the Parliament and the Council.

Europe needs to address some key issues that are inhibiting investment and competitiveness. Europe's structures, processes, policy-making and governance need to be simplified to ensure we eliminate unnecessary costs and create a faster and more agile economy.

Europe needs to address its "Energy Trilema," in which low carbon, environmental and public health objectives vie with the goals of energy security and price competitiveness. The cost of manufacturing in Europe is raised by the high cost of energy due, in part, to our over reliance on imports and poor infrastructure. Europe needs to mitigate the negative impact of energy, which costs twice that in the US or Russia and 20% more than in China. Future growth and competitiveness depends on a reliable and secure energy supply at competitive prices. Barriers impeding energy flows threaten the single market, industrial competitiveness and the needs of citizens. We need a pan-European infrastructure like those of the communications and transport sectors.

Europe also lags behind in productivity gains relative to emerging industrial powerhouses. The EU-US productivity gap is widening again after years of narrowing. That is linked to a production efficiency gap caused by regulations, and lower investment in ICT and intangible assets.

Finally, the importance of trade in Europe's reindustrialization cannot be underestimated. Recovery will be driven mainly by the exports of manufacturers benefiting from the EU's preserved and upgraded comparative advantages in high-end products. Here, bilateral agreements such as the proposed Transatlantic Trade and Investment Partnership can have huge upside for the EU in operating within the new realities of an increasingly competitive global economy.

# Europe's attractiveness is subject to conditions

## No talent, no success

According to 22% of our respondents, boosting labor mobility and skills development will be central to the EU's Horizon 2020 program and the major driver of Europe's future attractiveness to investors.

The world economy continues to face the talent conundrum. On the one hand, rising unemployment continues to be a problem in many countries. At the same time, skilled labor remains in short supply and companies find it difficult to fill empty positions with the right people. Europe in particular is suffering from this problem. A study by Eurofound reveals that 14 million young Europeans are currently jobless. Therefore, there is an urgent need to focus on Europe's talent base.

The creation of new jobs in Europe depends on the existing labor force being equipped with the right set of skills. There is a particular need to address the skills mismatch in sectors such as ICT, health care and green, where job creation on a large scale is possible; for instance, it is estimated that Europe could soon face a shortage of up to 900,000 ICT workers. To tackle this issue, the EC launched a multi-stakeholder partnership called the Grand Coalition for Digital Jobs in March 2013. To date, 47 organizations, including Google, Microsoft, SAP and Cisco, have pledged their support to this initiative, in addition to SMEs, non-governmental organizations and education providers.

### Improving Europe's business environment

**Which of the following measures contained in the EU's 2020 strategy will help the European Union or improve its attractiveness?**

| | 2014 |
|---|---|
| Modernize labor markets by facilitating labor mobility and life long skills development | 22% |
| Improve the business environment, in particular for SMEs | 20% |
| Enhance the performance of education systems | 18% |
| Improve framework conditions and access to finance for research and innovation | 14% |
| Help decouple economic growth from the use of resources, by decarbonizing the economy and increasing the use of renewable energies | 9% |
| Speed up the roll out of high-speed internet | 8% |
| Ensure social and territorial cohesion | 7% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

### Attracting international talents

**What measures should Europe take to improve its ability to attract and retain international talent?**

| | 2014 |
|---|---|
| Introduce fast-track access to work permits for highly skilled non-EU nationals | 31% |
| Promote international university study programs | 26% |
| Promote international internship schemes for European students | 17% |
| Harmonize tax regimes for expatriates | 12% |
| Organize international job fairs | 9% |
| Can't say | 5% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

Viewpoint

# Harnessing people to prosper amid rapid change

"Leveraging talent and ideas across country borders is vital for our continent to continue to grow."

**Guillaume Alvarez**
Senior Vice President EMEA, Steelcase

At Steelcase, we work with the world's leading organizations and, as a globally-integrated enterprise, we view Europe as an integral part of our worldwide network of clients, distributors and employees.

We see the opportunity for Europe to continue to be a birthplace of leading organizations, as well as originator of ideas and innovations that will benefit both national and international organizations. I work with many leading organizations, across industries, that strive in the European market and that are planning for additional growth here. As we collaborate with these organizations to help them understand the power of place and location as strategic tools in leveraging their success, I see three key factors that we believe can lead Europe to a bright future.

First, it is essential to understand that leveraging talent and ideas across country borders is vital for our continent to continue to grow, prosper and have a positive impact on the world's economy. In an increasingly complex and competitive global environment, it is when we create the conditions to unlock the promise of people — across borders and cultures — that we will collectively achieve the greatest return. The creation of cross-border innovation hubs that work collaboratively will foster innovation and accelerate the introduction of new solutions for all markets.

Recognizing this means recognizing the importance of excellence in our education systems. We need to accelerate the development of talent that embraces thinking about design and that invents our future in an increasingly global, mobile economy, round the clock. This includes developing talent in design, engineering, management and all fundamental sciences — among other disciplines — and it means understanding how active learning happens by adopting new ways of teaching.

Lastly, we believe a great opportunity for Europe lies in the harmonization of its labor regulations. This is a critical requirement for successful and agile businesses in Europe that aspire to offer international careers and rapidly mobilize talent across borders to compete effectively against businesses operating from fast-growing emerging economies.

As we all know, we live in a time of unprecedented change that, while volatile, is also exhilarating. Understanding the tensions and embracing the complexities that they offer is the key to helping business — and our continent — to thrive. I believe in our talent.

Mobility is another priority. The number of workers moving from one EU member country to another has increased from 4.7 million in 2005, to 8 million in 2013. However, labor mobility in the EU remains below potential and lower than in the US and Australia. Freer movement of labor across Europe could provide more flexibility to labor markets and help in tackling the persistent unemployment problem. In this regard, the EC proposed measures including the upgrade of the pan-European job search network EURES.[1] This would allow job-seekers to identify opportunities across other member nations and allow employers to gain access to the right set of people.[2]

Another way to tackle the European skills deficit is to promote easy mobility of international students from outside Europe. For this reason, investors are calling for fast-track access to visas for non-EU nationals (31%) and the promotion of international university study programs (26%). The EC has also launched the Blue Card Directive, which creates a harmonized, fast-track procedure for foreign workers to enter Europe.

## Next Google

**Which three cities in the world offer the best chance of producing the next Google?**

| | 2014 |
|---|---|
| San Francisco and Silicon Valley | 26% |
| Shanghai | 22% |
| New York | 18% |
| Beijing | 16% |
| London | 12% |
| Mumbai | 7% |
| Los Angeles | 7% |
| Tokyo | 6% |
| New Delhi | 6% |
| Singapore | 6% |
| Berlin | 5% |
| Bangalore | 5% |
| Hong Kong | 5% |
| Moscow | 4% |
| Paris | 4% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

### Deeper integration, less regulation

Around 40% of our respondents said that cutting regulations is the first step for the EU to improve its future attractiveness. This was particularly emphasized by investors already established in Europe, with 44% prioritizing cutting regulations. According to BusinessEurope, the annual cost of the administrative burden on business in the EU amounts to 3.5% of its GDP. Around 50% of this burden arises from the manner in which individual Member States implement EU regulations at the national level — a peculiar habit known as "gold-plating." Europe needs to harmonize regulations in order to simplify the business environment and improve the quality of legislation. This will help to encourage existing companies to stay and new ones to invest.

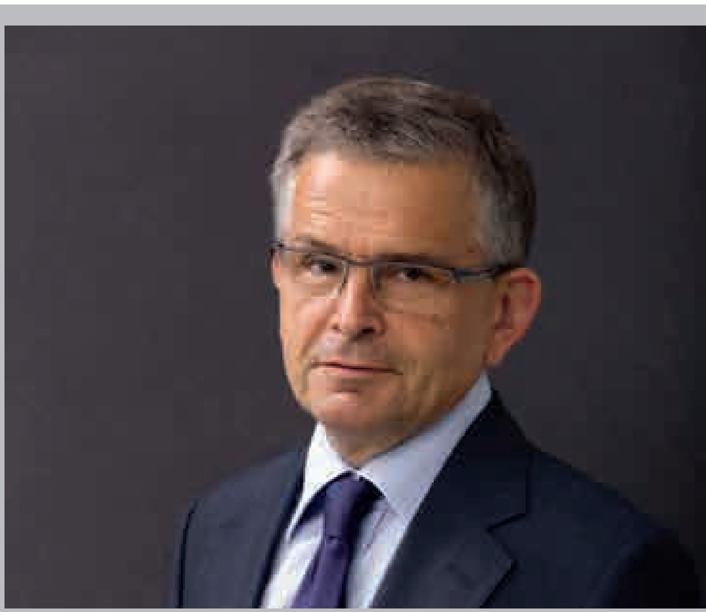
According to one out of three respondents, pursuing further economic integration will improve Europe's attractiveness for investors. Businesses seek clarity and want to operate in the region as if it were a country and not a continent. Nearly 30% of the investors said they would like to see a completed single market, including for services, which accounts for two-thirds of Europe's output and employment, but not even a quarter of its intra-EU trade. A single market for goods has been largely achieved, and the benefits are evident.

**1.** EURES - The European Job Mobility Portal is a website with job offers and advice for Europeans wanting to work in another member state. It is operated by the European Commission.
**2.** EU Seeks to Improve Labor Mobility Amid Record Unemployment," *Bloomberg*, 26 April 2013, available at www.bloomberg.com/news/2013-04-26/eu-seeks-to-improve-labor-mobility-amid-record-unemployment.html, accessed 2 April 2014; "Labour Mobility in the European Union — The Inconvenient Truth," *European Commission press release*, 10 February 2014, available at europa.eu/rapid/press-release_SPEECH-14-115_en.htm.

Viewpoint

# Opening the way to innovation and investment

"We believe a crucial key to success is cooperation."



**Jussi Pajunen**
Mayor of Helsinki

Helsinki is a dynamic world-class center for business and innovation. Located at the heart of the Baltic Sea Region, we are only an eight-hour flight from both New York and Beijing. Helsinki has an extremely well-functioning business environment; it boasts one of the world's most talented workforces and has impressive figures to show on investments made in R&D. It's also a clean, stable and secure region with a very high standard of living and welfare.

By 2020, we aim to be one of the top five European locations for foreign investment.

There is already evidence to show that Helsinki is a location of the future: the numbers of FDI and growth capital investments are growing. Also, the number of growth companies is developing favorably, and Finnish companies are well represented in the Deloitte and Red Herring listings of the most innovative star-tups.

In Helsinki, the willingness to rethink business, entrepreneurship, technology or society is a product of high levels of education and an atmosphere of innovation. The region hosts a thriving ecosystem of innovative start-ups and SMEs: in addition to the world-famous success stories of gaming companies such as Rovio and SuperCell, or Footbalance and Mendor in the life sciences domain and Zenrobotics, the world leader in robotic recycling, Helsinki is home to some 300 tech star-tups.

The entrepreneur-friendly atmosphere and activities to support the creation of new star-tups, such as the annual two-day star-tup conference Slush in November, have a big role in making the booming star-tup scene in greater Helsinki attractive for companies from all over the world. And it's not just the star-tups — the thriving ecosystem also attracts innovative foreign companies to locate their R&D activities in Helsinki. We are also active in offering services to international venture capitalists looking for investment targets. As a particular advantage, I want to emphasize our commitment to develop an open city that aims at global leadership in public sector transparency — Open Helsinki.

We believe a crucial key to success is cooperation. Our operations in attracting international investments are based on close interaction with public, academic and private sector partners. We also co-operate actively with colleagues around the Baltic Sea Region in the field of investment promotion, including joint offers to investors where it makes sense. I believe we have what it takes to achieve our goal of being a top-five European investment location.

### Cities may be Europe's best demonstration of its world-class innovation

According to our respondents, London is the only European city that is likely to produce "the next Google." Three more European cities — Berlin, Moscow and Paris — made the top 15. Cities in the US and Asia continued to be the top choices of investors.

According to 38% of our respondents, Europe should support advanced technologies and innovation to remain globally attractive. What measures should European cities take if they are to compete more successfully with some of these global destinations? Some of the world's most innovative and entrepreneurial cities have certain "hard" features in common — their large companies, solid infrastructure, easy access to finance, and strong skills base. However, key differentiators lie in their creative potential, so the presence of academic institutions, including universities and research organizations, with renowned scientists and highly skilled researchers, are some of the indicators of success.

Innovation could put Europe on the path toward faster and more sustainable economic growth and employment. While the Innovation Union Scoreboard 2014 reveals that the EU has become more innovative in recent years, regional differences still persist, and are diminishing only slowly.[3] In this regard, more than 30% of respondents to our 2014 *European attractiveness survey* have highlighted the fact that Europe could become an innovation leader in the coming years by reducing bureaucracy and providing education and training in new technologies. Furthermore, 20% of respondents identify developing a culture of innovation and creativity and reforming labor laws as key steps.

3. Innovation Union Scoreboard 2014, European Union, March 2014.

## Key reforms for innovation

What reforms should Europe implement in order to make it a leader in innovation?

| | 2014 |
|---|---|
| Reduce bureaucracy | 31% |
| Improve education and training in new technologies | 30% |
| Develop a culture of innovation and creativity | 20% |
| Reform labor laws | 20% |
| Increase tax incentives for innovative companies | 18% |
| SMEs | 18% |
| Reduce taxes | 17% |
| Develop entrepreneurship | 15% |
| Develop joint research programs at the European level | 13% |
| Develop venture capital and other financial tools | 11% |
| Can't say | 1% |
| Other | 1% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

Critical to a dynamic, self-sustaining culture of innovation are SMEs, which account for over 99% of all European businesses.[4] Small companies can be more agile and flexible in responding to new technologies. In many sectors, such as biotechnology and ICT, small companies can also emerge as developers of new technologies. With SMEs playing such a key role in innovation, there is an urgent need to revamp the entrepreneurial environment in Europe. Indeed, 20% of business leaders agree that Europe needs to improve its business environment, particularly for SMEs.

4. "Innovation and SMEs — Keys to Prosperity," European Commission website, available at ec.europa.eu/research/sme/leaflets/en/intro02.html, accessed 3 April 2014.

## Investors demand less regulation and further economic integration

How should the European Union improve Europe's attractiveness?

| | 2014 |
|---|---|
| Cut regulation | 40% |
| Pursue further economic integration | 34% |
| Complete the single market (including for services) and increase competition | 29% |
| Pursue further political integration | 26% |
| Give back European countries more power | 22% |
| Promote more efficiently the European vision toward business | 21% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

# How the crisis transformed Europe's FDI attractiveness

# Special report

## Western Europe

The UK and Germany came out on top. Spain, Ireland, the Netherlands and Finland turned the crisis into opportunities. France, Switzerland and Italy fell off investors' radars.

## CEE

Most of "emerging Europe" lost its magic; Turkey and Russia arose as new powerhouses.

## Manufacturing

FDI declined compared with the rise of services; however, 89% of investors still expect to be producing in Europe in 10 years' time.

**Business** services and ICT were the key winners in Europe's "industrial transformation."

**78%** of executives believe Europe will overcome the crisis, although their investment plans for 2015 decline by four percentage points.

# In five years, Europe lost its FDI supremacy

**Since 2008, FDI trends echoed the broader economic shift toward developing and transition economies. Developed markets, particularly Europe, bore the brunt of the impact of the downturn on FDI in the crisis years (2009–13). FDI declined by 14 percentage points during the period.**

In 2012, when the crisis was at its peak, developing Asia, for the first time, overtook Europe to become the world's leading FDI destination. Despite Asia continuing to dominate, 2013 was a turning point. Europe's share of global FDI rose to 20% (+2 points from 2012) in 2013 – the first increase seen since the onset of the crisis in 2008. Confidence is returning to Europe, with some large cross-border deals signed, including Vodafone's acquisition of Kabel Deutschland and Lafarge and Holcim's merger announcement.

**During the crisis, Europe recorded a steep decline in it's share of global FDI inflows.**

An analysis of our EIM data brings to the fore some other interesting trends. The crisis did not affect FDI as badly as might have been anticipated, at least in terms of the number of investment decisions taken. In fact, despite the tide of negative trends, the number of inward investment projects actually rose (+11%) in Europe during the crisis years. Expansion projects increased at a faster pace (+17%) than new projects (+11%). This brings us to two conclusions: first, Europe's fundamental strengths – stability and transparency, large and rich markets, ease of doing business and labor skills – remained intact and continued to attract global companies. Second, investors became increasingly acclimatized to the economic situation: the "new normal" Europe.

However, it would be incorrect to say that optimism was not dampened over the course of the last five years. Investors became cautious and tended to invest in smaller projects. Job creation from FDI projects went down by 22%. On average, an FDI project created only 40 jobs during this period, compared with almost 60 jobs in the pre-crisis times. In absolute terms, Europe created 217,722 fewer jobs through FDI in these years than before the downturn. A dip in manufacturing jobs accounted for most of this decline.

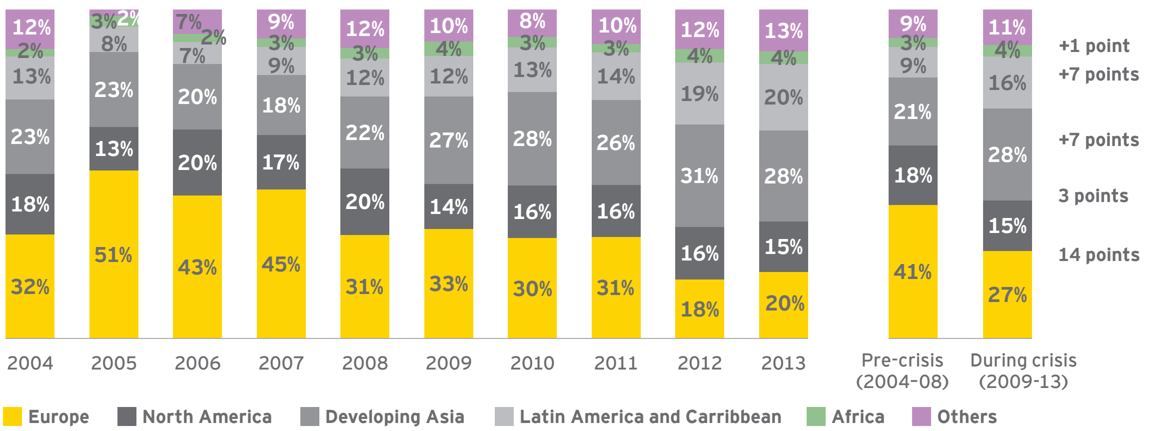
## FDI in Europe before and after the crisis

| | Pre-crisis | During crisis | Change |
|---|---|---|---|
| FDI projects | 18,507 | 16,938 | -21% |
| Job creation* | 766.5 | 975.1 | +9% |

* In thousands. Source: EY's *EIM 2014*.

## FDI inflows by region

(2004–13)




Source: UNCTAD.

# Europe's FDI map was completely redrawn

The FDI maps of Europe before and after the downturn of the last five years are very different.

The impact of the economic and financial turmoil on FDI was most severe in CEE, where FDI projects declined by 12%, compared with a 19% increase in Western Europe. The divergence is all the more apparent in job creation, which fell by 30% in CEE, compared with a decline of 13% in Western Europe.

There are two reasons for this decline. First, the crisis exposed the weaknesses in the economic fundamentals of CEE, which was heavily dependent on consumption and its banking system. CEE countries were characterized by a higher level of consumer credit, and the stock of consumer loans was growing at double the pace of stock of savings. Second, between 2004 and 2008, approximately 75% of the FDI projects in the CEE region originated from Europe itself. As a result, when the crisis hit, FDI projects declined substantially, hitting a record low in 2009. While Western European countries were also mired in crisis, some of the economies were relatively safe, others were too big to ignore, and others managed to implement the right reforms at the right time. Logically, the impact of the global downturn was felt less in Western Europe's inward FDI projects.

**The crisis changed Europe's FDI landscape.**

A breakdown of data for European countries reveals five disparate categories; each of these groups has a unique story:

### Consolidated attractiveness: the UK, Germany, the Netherlands and Belgium

With their low risk and sustainable profitability profiles, the UK, Germany, Belgium and the Netherlands have all confirmed their reputations as relative safe havens for FDI, maintaining investors' confidence in the midst of the crisis. For the UK and Germany, a solid economic performance and flexible labor markets reassured and encouraged investors. The UK was able to maintain its lead as the top FDI destination in Europe every year in the last decade, receiving around 19% of the total number of FDI projects. Germany has also made large gains in the crisis years. Buoyed by its manufacturing-oriented and export-driven economy, it effectively doubled its share of projects during the crisis years, from 7.8% in the pre-crisis years to 15.5% in the last five years, surpassing France in 2011 as the second most attractive destination for FDI in Europe.

## Differences in the impact of the crisis

The impact of the crisis on FDI was felt more in the CEE region

| FDI projects | 2004-08 | 2009-13 | Change |
|---|---|---|---|
| WE | 12,164 | 14,299 | +19.4% |
| CEE | 4,774 | 4,208 | -12.2% |

| FDI job creation* | 2004-08 | 2009-13 | Change |
|---|---|---|---|
| WE | 449.0 | 401.7 | -13.1% |
| CEE | 526.1 | 364.8 | -30.2% |

* in thousands. Source: EY's *EIM 2014*.

Belgium and the Netherlands, on the other hand, have differentiated themselves with competitive regulatory and tax regimes in addition to their strong logistics assets. Belgium held its place as the 5th most attractive country for FDI in Europe throughout the last decade, maintaining a steady flow of projects in business services, chemicals, and logistics. The Netherlands secured 715 FDI projects between 2009 and 2013 — an increase of 52%, compared with the pre-crisis years. This increase was driven by a sharp rise in FDI investments from the US and the UK, primarily in the software and business services sectors, many of which sought to benefit from the strong legal base for corporate governance present in the country.

### Turning difficulties into opportunities: Spain, Ireland and Finland

Though hit hard by the crisis, Spain, Ireland and Finland were able to successfully adapt to the demands of the international economy over the last five years, effectively turning the crisis into a marginal opportunity. As the first country to leave the EU's bailout program, Ireland attracted the attention of investors with a competitive 12.5% tax rate on corporate profits and an increasing talent base, securing 538 FDI projects during the crisis period, up by 33% from pre-crisis years. The country has strengthened its position as an investment hub in the software sector, particularly for US companies. For instance, in December 2013, software giant Microsoft announced an investment of €170m to set up its Europe, Middle East and Africa data center in Dublin.[5] Finland is undergoing a similar FDI revolution. Overall, the country secured 284 FDI projects between 2009 and 2013, an increase of 158% compared with the pre-crisis years. Like Ireland, Finland saw a marked increase in investments in software, as foreign companies saw opportunities to capture the ICT talent base left open by restructuring in Finnish giant Nokia.

Having experienced major difficulties during the European sovereign debt crisis, Spain saw limited growth in FDI projects over the last five years. However, a series of successful labor market reforms in 2012 increased the country's competiveness relative to other European countries, bringing unit labor costs below those of Germany for the first time since 2005. These reforms have had a significant impact on FDI, seeing job creation from FDI more than double in Spain over the crisis period, from 5,212 jobs in 2009 to 11,118 jobs in 2013. This trend has been particularly pronounced in the automotive sector, where major automakers such as General Motors and Renault have plans, but is also true for other manufacturing sectors attracted by competitive costs of production.

## Still struggling: France, Italy, and Switzerland

For France, Switzerland and Italy the struggle to retain and attract foreign investment is ongoing. In 2011, France slipped one rank behind to third position in the overall European ranking for FDI projects, behind surging Germany, which was a turning point. Although France held on to its position as the leading destination for manufacturing projects in Europe, the overall number of FDI decisions and ensuing job creation in the country declined by 2% and 27% respectively between 2009 and 2013. In Italy, total annual project numbers have declined steadily since 2010, decreasing 19% per year on average. Switzerland has also been hit hard by the crisis. The country experienced a 24% drop in FDI projects during the downturn. A strong Swiss franc and weaker demand in several key sectors led to a decline in projects in financial intermediation, pharmaceuticals and software sectors. Furthermore, the referendum on immigration quotas in early 2014 could trigger adverse effects on the country's attractiveness.

5. "Microsoft's Cloud Services Growth Drives Second Expansion of its Dublin Datacentre," *Microsoft press release*, 3 December 2013, available at www.microsoft.com/eu/PRESSRELEASE_Microsoft_cloud_services_growth_drives_Expansion.aspx, accessed 29 April 2014.

## FDI projects by countries

The crisis changed Europe's FDI landscape

| | 2004-08 | 2009-13 | Difference |
|---|---|---|---|
| United Kingdom | 3,206 | 3,524 | +318 |
| Germany | 1,326 | 2,851 | +1525 |
| France | 2,656 | 2,499 | -157 |
| Spain | 947 | 1,111 | +164 |
| Belgium | 817 | 808 | -9 |
| Russia | 596 | 743 | +147 |
| Netherlands | 472 | 709 | +237 |
| Poland | 802 | 622 | -180 |
| Ireland | 405 | 535 | +130 |
| Turkey | 180 | 418 | +238 |
| Italy | 321 | 395 | +74 |
| Switzerland | 522 | 394 | -128 |
| Sweden | 471 | 323 | -148 |
| Czech Republic | 512 | 321 | -191 |
| Romania | 612 | 311 | -301 |
| Hungary | 597 | 308 | -289 |
| Serbia | 164 | 284 | +120 |
| Denmark | 297 | 225 | -72 |
| Slovakia | 305 | 201 | -104 |
| Bulgaria | 287 | 148 | -139 |

Source: *EY's EIM 2014*.

Viewpoint

# Putting citizens at the heart of European economic renewal

"To improve EU competitiveness, we must enhance the production of tradeable goods and services."

**António Pires de Lima**
Minister of Economy, Portugal

As we work relentlessly to overcome the consequences of an unexpectedly lengthy and complex economic and financial crisis that affected Europe as a whole, there are consistent signs that the region is already undergoing a modest return to economic growth. Nonetheless, the crisis has blighted the lives of many Europeans, especially the least well-off, and times remain demanding and challenging for Europe.

The path to sustainable and continuous growth is tortuous and difficult to follow. Member States need to agree on the major objectives. From our perspective, three stand out: the need to promote human capital to leverage innovation and entrepreneurship, the battle to enhance competitiveness and moves to foster a resource-efficient economy. Citizens must be at the center of Europe's concerns and policies.

Firstly, to combat unemployment, Europe must promote human capital, entrepreneurship and business innovation, and also improve SMEs' access to finance. We must launch a major effort to develop new value-added industries and services throughout Europe. And to achieve this goal, it is essential to reduce the on going gap between the average financing costs of companies in southern Europe and those located at the heart of the EU. This will give entrepreneurs and young graduates sound conditions in which to develop their ideas and businesses.

To improve EU competitiveness, we must enhance the production of tradable goods and services. International competeveness is a zero sum game, and we must be able to take full advantage of rising labor costs in Asian economies, which are pushing industries to a tipping-point where it will make economic sense to return some business activities to Western economies, further increasing Europe's attractiveness. This is true for both industrial activities and for services, especially where technology, innovation, design or other intellectual components add value and differentiate European production. We should also seize upon Europe's strength as the world's leading tourist destination and revitalize our hospitality and related industries.

Finally, to assure the sustainability of our economies, we must persevere in shifting investments to environmentally friendly and low-carbon options.

All this will take hard work. Prosperity is a moving target. If we want better results, we need to be smart and move with the times. The Transatlantic Trade and Investment Partnership being negotiated between Europe and the U.S. is an ambitious example of the kind of path we should pursue.

Leaders of the European Union must work together with those of member States to find the right mix, region by region, making the most of our strengths and reducing our weaknesses. And this is true for Portugal, for other European countries, and for the European Union as a whole.

Despite negative trends over the crisis years, France, Italy, and Switzerland are showing some positive signs. France registered project and job growth in 2013, and the French Government has recently launched a "responsibility pact," which is essentially aimed at reducing its high payroll taxes to lure corporate investment. In addition, it has outlined plans to rationalize corporate tax rules, simplify customs procedures and provide a tax break for foreign start-ups to win back investors.[6] Italian Prime Minister Matteo Renzi has made similar pledges designed to boost the country's attractiveness and competiveness, promising labor market reforms, a significant reduction in income taxes, and the payment of arrears to the private sector.

## The emergence of Eastern Europe's new powerhouses

Turkey and Russia have become highly attractive destinations for FDI over the last five years, drawing significant numbers of FDI projects with a significant market potential, skilled workforce and improving business conditions. Turkey did not appear in the top 15 FDI destinations in Europe prior to the crisis. However, between 2009 and 2013, it saw FDI projects surge by 129% accompanied by a 162% increase in job creation, making it the 10th most attractive destination for FDI in Europe.

Meanwhile, Russia took the leading position for FDI projects among non-Western European destinations during the crisis years. The automotive sector stood out as a star performer, due to its potential for expansion in the country. For the same reasons, food, chemicals, and machinery and equipment were also at the top of the FDI rankings. However, continued FDI growth in both Turkey and Russia remains fragile and contingent on limiting political risk, particularly in the case of Russia.

Although it lacks the domestic market potential of Turkey and Russia, Serbia also saw a notable improvement in its FDI attractiveness during the crisis years, with a 73% increase in FDI projects in this period. Attracted by low wages and Serbia's proximity to key European markets, FDI projects in manufacturing doubled from 106 during the pre-crisis years to 213 projects between 2009 and 2013, creating significant job growth in the country.

## The end of the Central and Eastern European "miracle"

In the early 2000s, many CEE countries emerged as solid growth stories, anchored by an affordable and skilled labor force, a favorable business environment, an advantageous location on the periphery of Europe, and the promise of EU accession. This led to a flood of foreign investments in the region, which increased steadily throughout the pre-crisis period. However, as the crisis spread and underlying weaknesses in some CEE countries came to the fore, the momentum of FDI slowed in some countries, including Poland, the Czech Republic, Hungary, Slovakia, Romania and Bulgaria. For instance, with a 22% drop in FDI projects during the crisis years, Poland lost its leading position in the CEE region to Russia and slipped to fifth position in terms of FDI job creation in Europe between 2009 and 2013. This trend is all the more surprising given that, until 2013, Poland was the only EU Member State to witness positive growth during the crisis. Similarly, the Czech Republic, another key economy in the region, saw a marked decline of 37% in inward investment projects between 2009 and 2013.

**6.** "France Tries to Tempt In More Foreign Investment," *The New York Times*, 17 February 2014, available at: www.nytimes.com/2014/02/18/business/international/hollande-throws-open-frances-doors-to-business.html??version=meter+at+8&region=FixedCenter&pgtype=article&priority=true&module=RegiWall-Regi&action=click, accessed 28 March 2014; "Foreign Investment in France Falls 77%," *The Wall Street Journal*, 28 January 2014, available at: online.wsj.com/news/articles/SB10001424052702303277704579348651776198462, accessed 28 March 2014.

# Changes in FDI patterns

### Investors' European appetite: more consumption, less production

Sales and marketing projects represented almost half of FDI in the past five years (49%), increasing its lead over any other corporate activity. Manufacturing is a distant second, while headquarters, R&D and logistic operations account for 18% of the total.

Europe's consumer base is a key attraction for foreign investors and domestic companies, with more than 500 million "rich" consumers and the world's number one GDP at €12t. The continent is also the world's largest trading block, with a15% share in global trade in goods and a 22.5% share in trade in services in 2012.

### A different industrial Europe

The contribution of manufacturing to the EU's GDP shrank to around 15% in 2012. Productivity levels on the continent have decreased every year since it went into recession. This has resulted in a decline in the share of Europe's manufacturing FDI, which declined by five percentage points to 26% between 2009 and 2013, compared with the pre-crisis years. This decline was more evident in job creation (27%). Nevertheless, today, manufacturing still accounts for half of total job creation by FDI in Europe.

The confidence of our survey respondents reflects their optimism: 89% expect to be manufacturing in Europe in 10 years' time. This is a five-point increase from our last survey and a solid 19-point improvement on our 2010 report.

## FDI projects by activity

The composition of FDI projects has changed in the crisis years

| | 2004-08 | 2009-13 | % change |
|---|---|---|---|
| Sales and marketing | 38% | 49% | +11 |
| Manufacturing | 31% | 26% | -5 |
| Headquarters | 9% | 4% | -5 |
| Logistics | 8% | 7% | -1 |
| Research and development | 7% | 7% | |
| Testing and servicing | 3% | 3% | |
| Contact Centre | 3% | 2% | -1 |
| SSC | 1% | 1% | |
| Internet data center | 1% | 1% | |
| Education and training | 0% | 1% | +1 |

Source: EY's *EIM 2014*.

The crisis has changed the manufacturing attractiveness of countries in Europe. Some peripheral countries have undertaken significant structural reforms, while some core countries have been slow to implement competitiveness reforms. Comparing the pre-crisis and crisis years, manufacturing jobs created by FDI projects declined in France and Belgium by 18% and 36% respectively, while Spain, on the other hand, witnessed a 30% increase. A similar divergence was noted in the CEE region: while job creation in countries such as Poland, Romania and the Czech Republic fell by more than 50%, it increased in Turkey and Serbia by 143% and 157% respectively.

## Investors are more firm on their manufacturing plans in Europe

Ten years from now, will you still manufacture in Europe?

| | 2010 | 2013 | 2014 |
|---|---|---|---|
| Yes | 70% | 84% | 89% |
| No | 20% | 9% | 9% |
| Can't say | 10% | 7% | 2% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

### Lower appeal for headquarters and decision centers

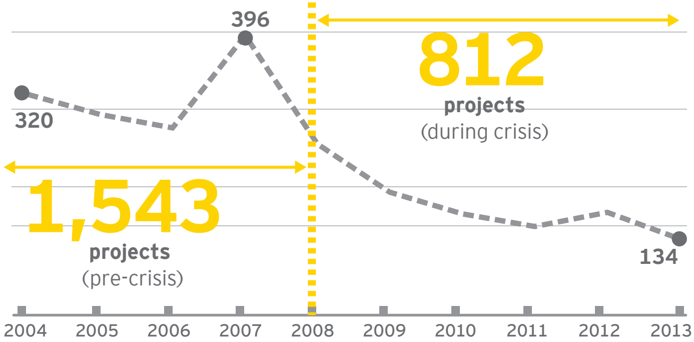
The crisis had the greatest impact on headquarters-oriented projects. These nearly halved from 1,543 in the pre-crisis years to 833 in the 2009–13 period. Almost all European countries saw a decline in such projects, with Ireland, the Netherlands and Germany being the only exceptions. Ireland and the Netherlands have clearly benefited from their tax incentives. Likely as a result of market saturation, the UK, France and Switzerland have been among the countries that saw the greatest decline in headquarters projects.

### Business services and ICT sectors were most active during the crisis

Business services overtook software to emerge as the leading sector for FDI projects in Europe during the crisis years. In fact, business services have been one of the fastest-growing industries in the region in the last five years, with a 40% increase in FDI projects compared with the pre-crisis years. Nearly 60% of this growth has been due to the increase in the UK (+55%) and Germany (+108%). FDI projects in the business services sector more than doubled in Ireland and Russia, and increased by more than three times in Finland and Turkey, albeit from a low base. The gross value added in the business services (including financial services) sector in the Eurozone is expected to see a growth rate of 1.8% by 2017. But companies need to offer services that cater to the exact end requirements of customers in order to tap this growth rate. At the same time, innovative service providers who can respond to technology changes will be better positioned.

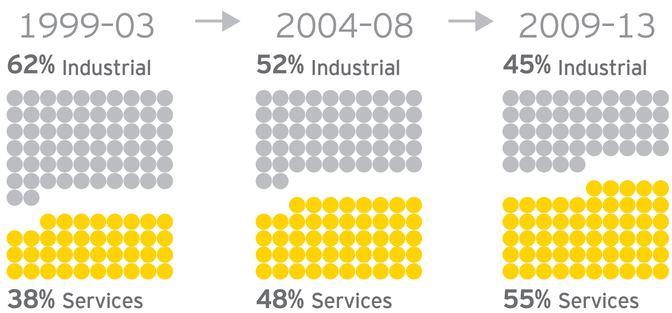
## FDI projects in headquarters

A declining trend in "headquarters" FDI projects in Europe




Source: EY's *EIM 2014*.

## Less manufacturing, more services




**Services:** headquarters, sales and marketing, business services, education and training. **Industrial:** manufacturing, R&D and logistics.

Source: EY's *EIM 2014*.

## FDI by activity

A steep increase in business services FDI projects in Europe

| | 2004-08 | 2009-13 | % change |
|---|---|---|---|
| Business services | 1,995 | 2,827 | +42% |
| Software | 2,025 | 2,022 | 0% |
| Machinery and equipment | 995 | 1,349 | +36% |
| Automotive | 1,276 | 1,164 | -9% |
| Other transport services | 794 | 829 | 4% |
| Financial intermediation | 872 | 782 | -10% |
| Chemicals | 674 | 782 | +16% |
| Electronics | 1,053 | 779 | -26% |
| Food | 719 | 775 | +8% |
| Electrical | 455 | 637 | +40% |
| Pharmaceuticals | 619 | 577 | -7% |
| Plastic and rubber | 502 | 551 | +10% |
| Fabricated metals | 433 | 444 | +3% |
| Scientific instruments | 316 | 423 | +34% |
| Non-metallic mineral products | 477 | 359 | -25% |

Source: EY's *EIM 2014*.

Viewpoint

# Highlighting Europe's attractions

"We should be a little more proud of Europe's achievements and potential."

**Pierre Dejoux**
President North Europe and Africa, Otis Elevator Company

Otis has been present in Europe for more than a century. France, Germany and the UK have long been key markets, and we moved into Russia in the 1990s. Today our turnover in Western, Central and Eastern Europe exceeds US$5b. We have about 28,000 employees and 10 factories here, as well as four research and development centers.

Europe has many strengths. The first is purchasing power: this is a big market and, in our industry, Europe has an installed base of about five million elevators, so there is a strong service element. Europe also has its own technical standards for elevators, and we design and manufacture products here to meet them.

Then it has good universities, high skills levels and good labor. One mission of our European operations is to develop innovative technologies that we later use in China, Asia and the US.

Some European countries are very cost competitive, but in others, higher costs drive us to innovate, for example, in the development of remote maintenance, a capability developed here that we are now rolling out around the world.

But today, there is competition in both innovation and costs between Europe and Asia. Europe must remain an innovation leader, otherwise manufacturing will go elsewhere.

Europe's biggest weakness is its complexity. Every country is different and fiscal harmonization is lacking, so you need to develop a deep understanding of the region. Outsiders are deterred by this complexity.

Sometimes in Europe, we discuss too much, fail to emphasize the many areas where we agree, and are slow to move forward. Our friends in Asia are very open-minded, benchmark more, and move very quickly. Europe has to work on its image and must speak with a single voice to make clear the reality of its attractiveness.

We also need to be less ideological and more pragmatic in our approach to attracting investment. Singapore offers incentives, and so do many states in the US. We should be more flexible in Europe to enable regions to offer tax incentives to investors.

Finally, our aging population offers an opportunity for Europe to become an innovation leader in combining traditional and digital technologies to develop the know-how to care for older people.

Europe has a lot going for it. Politicians, industrial leaders and citizens must all help get that message across. We should move fast, simplify, be pragmatic and, above all, be a little more proud of our achievements and our potential.

Information and communication technologies: the number of FDI projects remained stable in the software sector during the crisis years. Germany and Ireland were the key gainers, with increases of 89% and 56% respectively. This increase was offset by a decline of 17%, 17% and 47% in France, Spain and Switzerland respectively. FDI projects in Europe's electrical industry are on an upward trajectory. On average, the sector attracted 130 projects per year in the 2009–13 period — a 43% increase from the pre-crisis average of only 91 projects in a year. This growth was driven by a solid increase in Europe's three largest economies. FDI projects in Germany's electrical sector tripled, doubled in the UK, and increased by more than 50% in France. CEE economies, including Hungary, the Czech Republic, Romania and Bulgaria, saw a steep decline in ICT projects.

## Top five sectors by job creation

**The automotive sector remains the key source of job creation in Europe**

| | 2004-08 | 2009-13 |
|---|---|---|
| Automotive | 22.0% | 26.5% |
| Electronics | 10.0% | 4.7% |
| Business services | 7.0% | 7.6% |
| Machinery and equipment | 4.9% | 6.7% |
| Software | 4.8% | 5.0% |

Source: EY's *EIM 2014*.

### Advanced manufacturing and automotive come out of the downturn transformed, but stronger

Despite severe competition and lower demand in the European market, industrial sectors still have their place in Europe's FDI mix. Europe offers a strong technological and engineering profile in the aerospace, electronics, machinery, and medical and surgical equipment sectors. Its competitive advantage is reinforced by the importance of product quality standards and the fact that labor accounts for a relatively small share of overall production costs; these factors are not particularly vulnerable to competition from low-cost destinations.

In the crisis years, Europe received 276 FDI projects per year in the machinery and equipment sector on average, up 39% from the pre-crisis period. Companies such as General Electric and Enercon have invested in the sector. In the last decade, France was the largest recipient of such projects, followed by Germany and the UK.

Similarly, Europe's scientific instrument sector has seen a sharp increase (34%) in the number of FDI projects initiated in the last five years compared with the pre-crisis period. The average number of projects per year in this sector increased from 63 before the downturn to 85 in 2009–13.

Investment in the automotive sector was also transformed by the recession. The number of FDI projects in Europe's automotive industry came down by 14% in the crisis years. Their numbers hit a record low in 2009 and picked up again to pre-2008 levels in subsequent years. Germany and Spain in Western Europe and Russia and Turkey in CEE have been the key recipients of FDI projects in the automotive sector in the last five years. France, Poland, Romania and the Czech Republic recorded a substantial decline. This was also replicated to some extent in job creation. If we extract Russia and Turkey from the list, job creation in the automotive sectors of CEE countries has seen a decline of 30%.

Viewpoint

# Accelerating Europe's supply chain revolution

"Energy costs and the pursuit of sustainability are becoming a major driver."

**Philip Dunne**
President, Prologis Europe

When we think about the attractiveness of Europe, we should remember that the European Union (EU) has its roots in the desire to provide security. The EU has developed far beyond that vision, perhaps too quickly, but the reality is that politics and national agendas take time to harmonize.

The unification of Europe and removal of trade borders allowed distributors to emphasize greater scale by moving from a national distribution design to a pan-European model. Yet we are only just through the first phase of this supply chain restructuring, which is underscored by the fact that Europe today has only a quarter of the modern space per capita of the more mature US market.

The growing dislocation between production, distribution and consumption brought by globalization has inspired a greater emphasis on supply chain management and integration. So today, there is a clear set of challenges and opportunities in the European logistics market.

First, we need to develop an integrated intermodal infrastructural network that will ultimately drive competitiveness through more efficient movement of goods, products and services in and out of Europe and within Europe to consumers. Inadequate distribution networks slow Europe down. European policy-makers this year established a policy to promote the movement of goods and people quickly and easily between Member States and assure international connections via a single, multimodal network that integrates land, sea and air transport throughout the EU — the trans-European transport network (TEN-T). Now, it must be implemented.

Rail transport is a cornerstone of this policy. The regulatory framework for distributing goods within the EU involves higher logistics costs and is inciting retailers, shippers and logistics companies to maintain greater inventory levels to cope with uncertainty. Our road networks are good and transport around 75% of EU freight. Rail is a significant component of our infrastructure, but inadequate. It handles only 18% of all freight in Europe, and achieving cross-border distribution by rail is extremely difficult. Each national rail network speaks a different language: the regulations and technical specifications of the tracks and trains are different. We need urgently to develop a common standard for the existing rail network, so that services can be integrated, and then engineer a big strategic capacity increase on a pan-European basis.

In addition, energy costs and the pursuit of sustainability are becoming a major driver — rail produces 76% less carbon dioxide than road transport in the UK.

To achieve modern, integrated transport networks, Europe needs to outpace the competition and unleash strategic investment in an integrated infrastructure that will fuel economic growth and job creation. We need to be thinking where we want to be in 20 years' time and have a bolder investment plan that begins to deliver competitive advantage now.

# Recovery or regeneration?

Most of our respondents (78%, +3 percentage points) are now confident that Europe will overcome the economic crisis.

## Europe is emerging from the crisis

**Are you confident in Europe's ability to overcome the current crisis?**

| | 2013 | 2014 |
|---|---|---|
| Yes | 75% | 78% |
| No | 23% | 21% |
| Can't say | 2% | 1% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

Their optimism stems from the flow of positive news in recent months: for instance, the rise in the ***Purchasing Managers' Index***, improving competiveness in some countries, advanced talks on transatlantic trade investment partnerships (TTIP) with the US and a fall in debt levels. In fact, the accession of Latvia to the Eurozone in January this year, despite recent troubles in the country, confirms Europe's continued appeal as an FDI investment destination. Lithuania is set to join the single currency in 2015.

However, it is important to note the gap between the perceptions of respondents who are established in Europe and those who are not. Established investors are far more confident than those that are not yet doing business in the continent. This indicates that, while Europe may see an increase in new and expansion projects from its existing investors in coming years, its uptake of new investors continues to be uncertain. According to 58% of our respondents, Europe's crisis situation may end in the next three years — although almost a third were more pessimistic, and indicated a five-year period. The recession may be behind us, but recovery is by no means assured.

Only 34% (-4 percentage points) of the investors surveyed have plans to establish or expand their operations in Europe. Most of these plans are linked to their strategies for growing their current operations (44%) and, to a lesser extent, acquisitions (22%) and joint ventures (11%). Investors are in a confident frame of mind, but the crisis has made them more cautious. The general uncertainty has dampened their appetite for making FDI investments. Their sentiments are evident in their investment plans for next year.

In our view, there are more opportunities in Europe today than 12 months ago. However, there is a growing divergence and opportunities vary country by country. Some parts of the Eurozone have taken their medicine and have made significant progress in rebalancing their labor markets and economies. These countries now offer increasing trade and investment opportunities for businesses.

Investment plans are on the decline, but so are relocation schemes. Today, only 10% of investors plan to relocate from Europe, compared with 11% last year and substantially less than 21% in 2007. This is a definite indication of the gradually softening attractiveness of emerging markets, which were previously the top destinations for investors considering taking their operations out of Europe.

## Fewer investors have relocation plans

**Do you have plans to relocate operations from Europe to another region?**

| | 2007 | 2013 | 2014 |
|---|---|---|---|
| Yes | 21% | 11% | 10% |
| No | 74% | 80% | 85% |
| Can't say | 5% | 9% | 4% |

Source: EY's *2014 European attractiveness survey* (total respondents: 808).

Viewpoint

# Reforming Europe for productivity, competitiveness and jobs

"Boosting long-term productivity, competitiveness and job creation requires continuing policy action on structural reform."

**Yves Leterme**
Deputy Secretary General, Organization for Economic Co-operation and Development (OECD)

Though the euro area is beginning to show long-awaited signs of recovery, comprehensive structural reforms are needed to enhance productivity, restore competitiveness and pave the way for enterprise development and job creation.

First, Europe needs to continue reforming its financial sector. Ambitious reforms to secure lasting structural adjustment in the euro area need to be supported by sound macroeconomic policies and financial sector repair. Fiscal consolidation must continue as planned, while preserving much-needed public investment in education, infrastructure, innovation and other key growth-enhancing programs. It is also essential to strengthen the euro area banks and put in place a well-functioning banking union, so that lending and effective financial intermediation can resume in support of the recovery. European financial markets need to return to normal so that credit can start flowing again.

Second, the remaining obstacles to a single market need to be removed. There is much scope for further pro-competition reforms in some core euro-area countries, where the impetus for reform has not been as strong as in the south after the crisis. For instance, after Italy and Spain, France and Germany have the highest barriers to competition in services in the euro area. Further pro-competition reforms could help achieve rapid job and productivity gains in sectors such as retail, trade and professional services. Europe should also reform its product markets to simplify regulations, reduce barriers to market entry, strengthen private sector participation in economic activity and reform the governance of state-owned enterprises. Most recommended reforms are sector-specific, focusing on regulatory entry barriers in potentially competitive segments of network industries and competition-enhancing reform in the services sector. For instance, removing unnecessary licensing requirements or reducing education requirements for setting up a business could raise output and employment in the economy overall.

Efforts are also needed to help the most innovative firms attract capital and labor and support the accumulation of knowledge-based capital, which has become an essential asset to compete in new technology sectors. At the national level, it is also essential to reduce patent litigation costs, move toward bankruptcy laws that do not overly penalize failure, develop R&D tax incentives that meet the needs of young firms and strengthen cooperation between private firms and public research entities. Overall, innovation policies that can bear fruit only in the long run have so far been given lower priority by countries than they deserve.

Boosting long-term productivity, competitiveness and job creation therefore requires continuing policy action on structural reform, both at the national and European levels, addressing both labor and product markets. All European countries, including those hit less hard by the adverse effects of the crisis, need to continue to push forward this agenda, together with policy efforts to strengthen investment in human capital, enterprise formation and innovation.

# Methodology

### The "real" attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on EY's EIM. This database tracks FDI projects that have resulted in new facilities and the creation of new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent. Data is widely available on FDI. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans. But many analysts are more interested in evaluating investment in physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where.

The EIM is a leading online information provider, tracking inward investment across Europe. This flagship business information tool from EY is the most detailed source of information on cross-border investment projects and trends throughout Europe. The EIM is a tool frequently used by government and private sector organizations or corporations wishing to identify trends and significant movements in jobs and industries, business and investment. The database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment, thus providing exhaustive data on FDI in Europe. It allows users to monitor trends, movements in jobs and industries, and identify emerging sectors and cluster development. Projects are identified through the daily monitoring and research of more than 10,000 news sources. The research team aims to contact 70% of the companies undertaking the investment directly for validation purposes. This process of direct verification with the investing company ensures that real investment data is accurately reflected.

The following categories of investment projects are excluded from EIM:

- M&A or joint ventures (unless these result in new facilities or new jobs created)
- License agreements
- Retail and leisure facilities, hotels and real estate investment
- Utility facilities, including telecommunications networks, airports, ports or other fixed infrastructure investments
- Extraction activities (ores, minerals or fuels)
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., a new machine replacing an old one, but not creating any new employment)
- Not-for-profit organizations (charitable foundations, trade associations and governmental bodies)

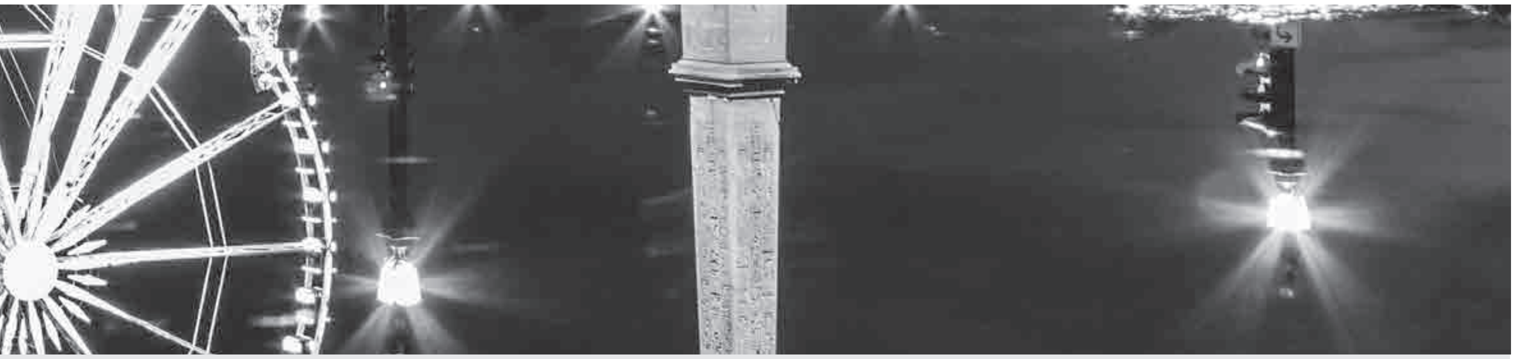
### The "perceived" attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2014, via telephone interviews, based on a representative panel of 808 international decision-makers.

This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

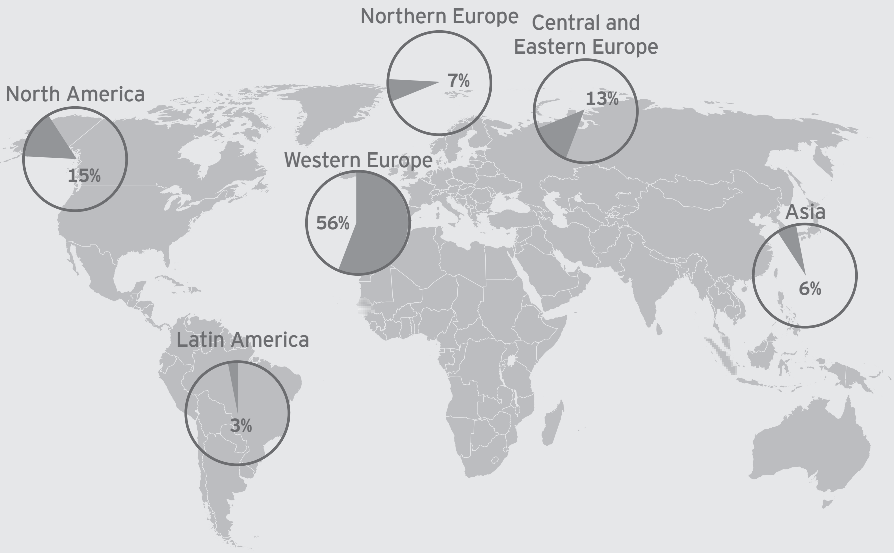
- 54% European businesses
- 29% North American businesses
- 12% Asian businesses
- 3% Latin American businesses
- 1% Middle East
- 1% Oceania

Of the non-European companies, 66% have established operations in Europe. As a result, overall, 81% of the 808 companies interviewed have a presence in Europe.



## Profile of companies surveyed

### Geography




### Turnover

**35%**
Less than €150m

**43%**
From €150m euros to  €1.5b

**22%**
More than €1.5b

### Sectors

**39%**
Industry, automotive and energy

**27%**
Private and business services

**19%**
Consumer

**9%**
Chemical industries and pharmaceutical industries

**6%**
High-tech and telecommunication infrastructures and equipment

### Function

**50%**
Financial director

**16%**
Marketing and Commerical director

**9%**
Managing director, Senior vice president or COO

**6%**
Director of investments

**5%**
Director of development

**4%**
Executive manager

**3%**
Chairman or President and CEO

**3%**
Director of strategy

**2%**
Import, export manager or International affairs director

**1%**
Human resources director

**1%**
Other

# Building a borderless business

Shifts in demographics and capital flows are marking the global economy and society as a whole. These trends are also having profound effects on our profession. Our response is to be the most integrated professional services organization in both our mindset and our actions. We have one strong global leadership team that sets a single global strategy and agenda into geographic areas across the Americas, Europe and Asia-Pacific.

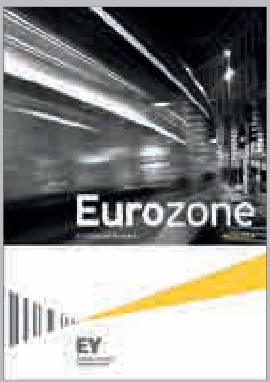
Creating our global mindset and structure are ongoing processes. We've been working with our partners to bring down the barriers to working together seamlessly across borders, and we have succeeded in realigning our previously country-focused organization into a more integrated global one. This means our clients get faster responses and more tailored services, as well as broader, more experienced teams with deeper industry knowledge. In addition, our people have more opportunities to pursue global careers. And our regulators see our structure as helping us to deliver consistent, high-quality service across the globe.

## International Location Advisory Services

EY's International Location Advisory Services (ILAS) assists our clients on business expansion and site selection projects worldwide. We go beyond a simple real estate, tax or cost approach by looking at the full scope of factors affecting international operations: geopolitical risks and market opportunities, quality of infrastructure and technology, availability of human resources and incentives, real estate investment and divestment options, and more. With over 20 years of experience and a vast network of relationships with government bodies and location experts, the ILAS team provides its clients with custom-tailored services that fit their specific needs and enable them to make the right decision, for today and tomorrow.

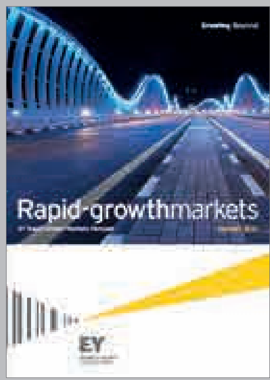
# Publications

## The Eurozone's recovery will gradually gather momentum in 2014



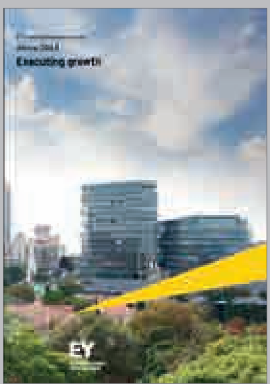

EY's latest Eurozone forecast concludes that the outlook for the economy in 2014 appears more secure. But the Eurozone will continue to lag behind other major economies. GDP growth is seen at just 1% this year and 1.4% in 2015. There is still worrying divergence among Eurozone Member States and unemployment remains worryingly high in many countries, with youth unemployment a particular concern. Learn more on www.ey.com/eurozone.

## EY Rapid-Growth Markets Forecast — February 2014



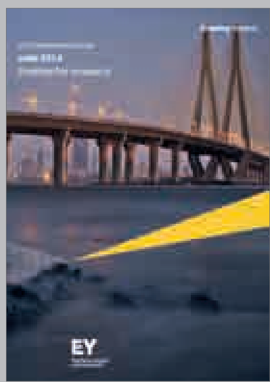

Explore trends, opportunities and the latest market conditions in the world's fastest-growing economies. Read the latest *EY's Rapid-Growth Markets Forecast* and find out how surging middle-classes in rapid-growth markets are changing the global economy and offering more opportunities to business around the world.

## EY's 2014 Africa attractiveness survey




Despite a decline in the number of new FDI projects into Africa in 2013, largely caused by a significant decline in North Africa, the continent's share of global FDI projects reached the highest level in a decade, with the number of new projects in sub-Saharan Africa continuing to grow. Africa's perceived attractiveness relative to other regions has also exhibited remarkable progress, moving to second place, up from eighth, only four years ago, showcasing how the image of Africa has begun to change. To go beyond the headlines, read EY's 2014 Africa attractiveness survey, *Executing growth*. Visit emergingmarkets.ey.com.

## EY's 2014 India attractiveness survey




Even through recent headwinds, India remains one of the top global destinations for FDI, on account of its solid domestic market, educated workforce and competitive labor costs. New business partners, particularly from the Middle East and Southeast Asia, are ramping up efforts to tap the country's underlying potential, while international investors are expecting a significant spike in infrastructure opportunities in the near future. Find out more in EY's 2014 India attractiveness survey, *Enabling the prospects*. Visit emergingmarkets.ey.com.

**EY** | Assurance | Tax | Transactions | Advisory




EYG no. AU2408
EMEIA MAS 1000758
ED none




**Contacts**


Marc Lhermitte
Partner, EY Advisory
+ 33 1 46 93 72 76
marc.lhermitte@fr.ey.com

Sanna Östberg
BMC Director
Global Strategic Macro Program
+ 46 70 318 87 39
sanna.ostberg@se.ey.com

Raffaella Santarsiere
Global Press Relations
+44 20 7980 0158
raffaella.santarsiere@uk.ey.com



This survey was carried out by EY, under the direction of Marc Lhermitte, Vincent Raufast, Sanna Östberg, Martin Polivka and Ankur Sadhwani with the participation of Ross Tieman, Jamie Stevenson, Marie-Armelle Benito, Corinne Dreux, Pierre Jarrige and the collaboration of Yves-Marie Cann, Aurélie Mohorcic and the teams of the CSA institute.