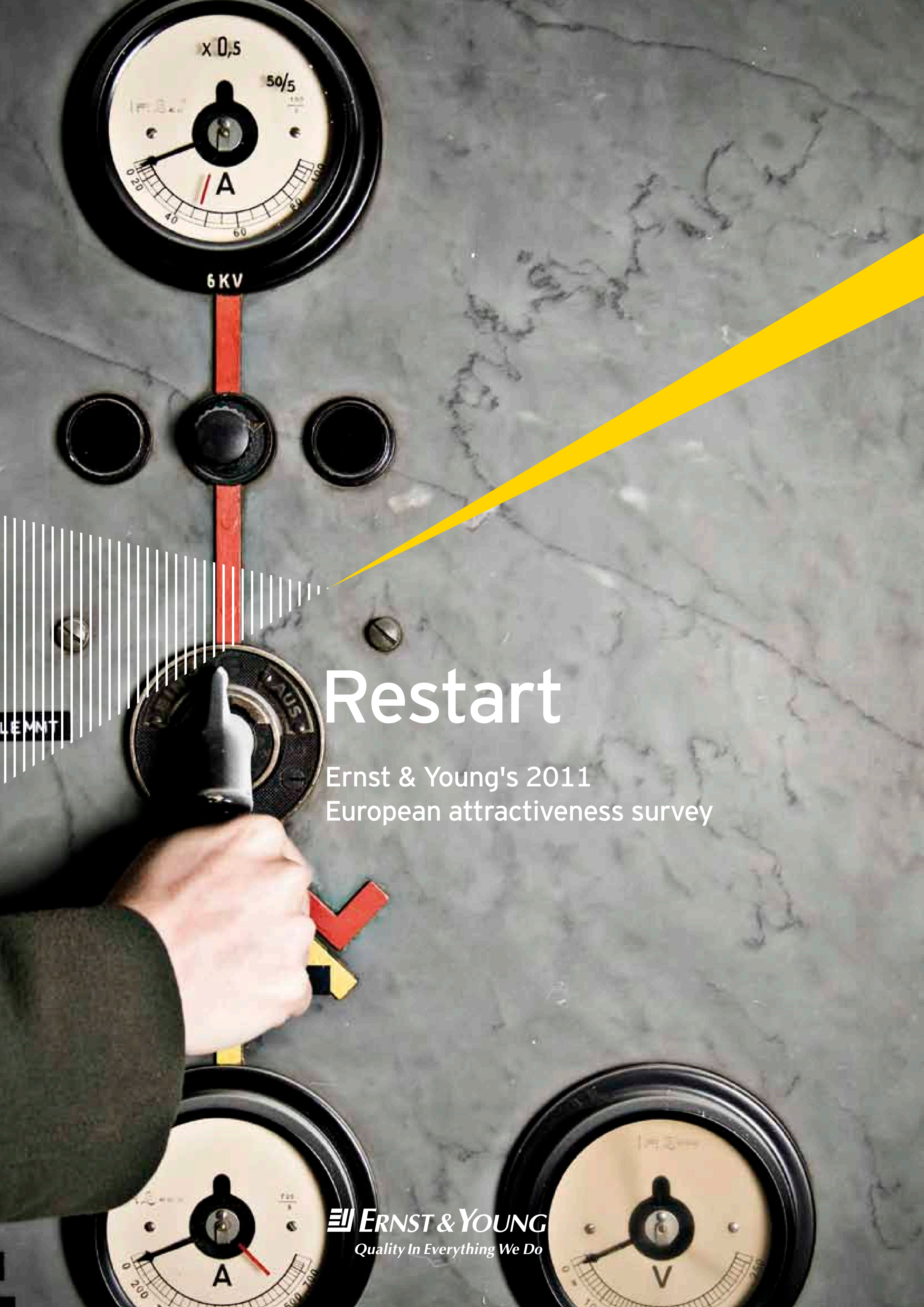

Restart
Ernst & Young's 2011
European attractiveness survey
Ernst & Young
Quality In Everything We Do

*Ernst & Young's 2011 European attractiveness survey* is based on an original two step methodology that reflects first, Europe's real attractiveness for foreign direct investors, based on *Ernst & Young's European Investment Monitor* (EIM) and second, the "perceived" attractiveness of Europe and its competitors for a representative panel of 812 international decision-makers.

As we present our ninth European attractiveness survey, we would like to thank the hundreds of decision makers and Ernst & Young professionals who have taken the time to share their thoughts with us.

We would like to extend our gratitude to the selected panel of global observers from the business, political and institutional communities who expressed their views on the future of Europe: Edward Glaeser (Glimp Professor of Economics, Harvard University, and author of *Triumph of the City*), Karolina Horoszczak (Public Relations Manager, IKEA Poland), Florian Kemmerich (President, Olympus Biotech Europe), Ronald Kent (Executive Vice President, NYSE Euronext and CEO, NYSE Euronext London), Dermot Lawton (Managing Director, eBay Europe Services), Gerald P. Leary (President, FedEx Express Europe, Middle East, Indian Subcontinent and Africa - EMEA), Jan Mühlfeit (Chairman Europe, Microsoft Corporation), Ana Palacio (Former MEP, Former Foreign Affairs Minister of Spain, Former Senior Vice President and General Counsel of the World Bank Group), José Antonio de Paz (Managing Director, HP Iberia), Thomas Seifert (President, Coleman EMEA), Antonio Tajani (Vice-President, Industry and Entrepreneurship, European Commission).

The success of this particular survey is directly attributable to their participation and commitment.

For more information:
www.ey.com/attractiveness

# Ernst & Young's 2011
# European attractiveness survey

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# Foreword

## May 2011: From Tokyo to Tunis, from Lisbon to London, natural, social and economic events have recently impacted our world.

Combined with the continued impact of globalization and demographic shifts, business, central government and even civic leadership are being conducted in a world that is significantly more complex than it was in 2003 when we conducted our first European attractiveness survey.

We now live in a world that is no longer dominated by developed markets. A world where the unrestrained use of finite natural resources and a "profit at all costs" pro-business attitude has been challenged by rising demand, a more conscious consumer base and a recognition of the interconnectedness of world markets.

While business leaders are uncertain about what the future holds, they understand that it will be affected by the shifts happening around them now. They foresee growth and recognize the huge potential of the emerging markets. Reinforced by our most recent research *Competing for growth. How business is growing beyond boundaries*[1], they are looking at new clients in new locations but understand that with new markets come unprecedented risks and unexpected rewards. They see new opportunities for new products in a world that is increasingly mobile, green, connected, digital — and ever more competitive. In their pursuit of attracting and retaining the best and the brightest new talent, they face a range of similar issues in developed and emerging markets but also differences that demand a more localized approach.

Europe remains the largest regional destination for FDI, albeit with a reduced share. A quarter of all consumption and investment takes place within its expanding borders. It remains a formidable force, but it must invest in its potential to lead by innovation and entrepreneurship. This must be at the heart of Europe's agenda and it requires that Europe finds new ways to compete, and more importantly, selects its own way to lead.

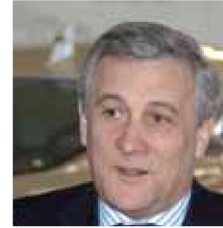
1. *Competing for growth. How business is growing beyond boundaries*. Ernst & Young, April 2011.

**Jay D. Nibbe**
EMEIA Deputy Area Managing Partner - Markets
Ernst & Young

**Marc Lhermitte**
Partner
Ernst & Young Advisory

Viewpoint

# Restarting Europe's real economy



**Antonio Tajani**
*Vice-President,*
*Industry and Entrepreneurship,*
*European Commission*

"I want the real economy, industry and small and medium enterprises (SMEs) to be center stage. We need to give our younger generations hope and a vision for the future through growth and jobs.

To restore confidence in the markets, leave the financial crisis behind us once and for all, and prevent economic and political decline, we need to close the gap with the spectacular growth of emerging economies and support innovation. This will only be possible if we really bet on our entrepreneurship, industry and SMEs, and on their capacity to adapt to the global challenges and opportunities.

Every year, millions of new consumers emerge in China, India, Russia and Brazil. This is a great potential market for innovative, high-quality European products. But to win the inventiveness -battle in our globalized market, our industry and SMEs need to restructure, modernize and invest in innovation. Our industry can compete on quality and innovation, but changes like these must be financed, and this requires financial markets to refocus on the needs of the real economy.

We also need to make it easier for SMEs to run their businesses. Some 99% of all European businesses are independent and have fewer than 250 employees. It is much easier to believe that we can create 23 million new jobs if our 23 million SMEs each employ just one more person, than to expect 3,800 new jobs to be created by each of our 6,000 blue chips.

Through the strengthening of the Small Business Act, I've put improving the business environment, access to credit and internationalization of SMEs, at the very top of my political agenda. We need to change our culture, to "think small first" when it comes to policy-making and regulation, and to make new generations excited about starting their own businesses.

Lastly, we are facing a new industrial revolution. Demographic growth and new consumers in emerging markets result in fierce competition for energy sources and raw materials, and increase speculative risks. Together, these could seriously threaten our industry and sustainable growth. But the need to use resources more efficiently could also be a great opportunity for our future competitiveness if we make the right political choices and invest to promote our know-how and technological leadership, especially in greener technologies."

# Executive summary

## The global context: competing in a polycentric world

The world has a growing number of important spheres of economic influence. **The European Union's share of foreign direct investment (FDI) inflows (26%, first place) now equals its share of world GDP**. Its recovery, however, remains mixed and tentative.

In 2010, emerging markets collectively reaped more than half of global inward FDI for the first time, although their performance was mixed: while the value of FDI into Brazil grew 16.3% on the back of commodities and consumption, capital inward investment in India fell 31.5%,[2] slowed by strong internal competition for investments projects. Growth of FDI in China was sustained because investors there are benefiting from stable returns on investment (ROI).

**When considering where to invest in 2010**, companies view transport and logistics infrastructure (63%), telecommunications infrastructure (62%) and stability and transparency of the political, legal and regulatory environment (62%) as the most critical factors.

2. "Global and Regional FDI Trends in 2010," *Global Investment Trends Monitor,* UNCTAD, 17 January 2011.

## FDI in Europe: Europe's true market value

**In 2010, the number of European FDI projects (3,757) rose 14% year on year and 137,337 new jobs were created by FDI in Europe, up 10% from 2009.** This marks a clear recovery of international investment in Europe's 43 countries.

The UK and France remain FDI leaders in Europe, but they are losing market share to countries such as Germany and a host of smaller more cost-competitive countries, for example, Poland, Hungary and the Baltics.

The greatest number of projects in Europe come from business services, software, machinery and automotive. Most jobs are created by business services and automotive.

The United States, Germany and the UK remain the leading source countries for FDI projects in Europe. China and India provide 6% of all FDI projects in Europe, unchanged year on year, but fewer of the new jobs.

**In 2011, the number of companies looking to invest in Europe rose 5%**, and the number of investors without investment plans for Europe fell 6%. Overall, 33% will invest in Europe this year and, of these, 44% are expanding facilities.

## Europe as it is perceived: a complex value proposition

**Though China is rated the world's most attractive investment region with a score of 38%, Europe ranks a close second in 2011 — awarded a score of 35% by investors.**

Reflecting a more polycentric world, the spread in attractiveness scores has decreased between 2005 and 2011, from a 60 to a 30 point spread between leaders and challengers. All areas, and notably Europe, have been selected by fewer decision makers as votes have been spread more evenly.

**Among Europe's strengths,** identified by investors, are a high-quality and diverse labor force (82%), a society that emphasizes social responsibility (77%), a predictable business environment (76%) and a leading-class capacitiy in research and innovation (75%).

However, respondents are concerned with Europe's low economic growth (33%), high taxes (30%) and high public debt (25%). To this they add political issues such as the lack of cohesive EU political and economic governance (23%).

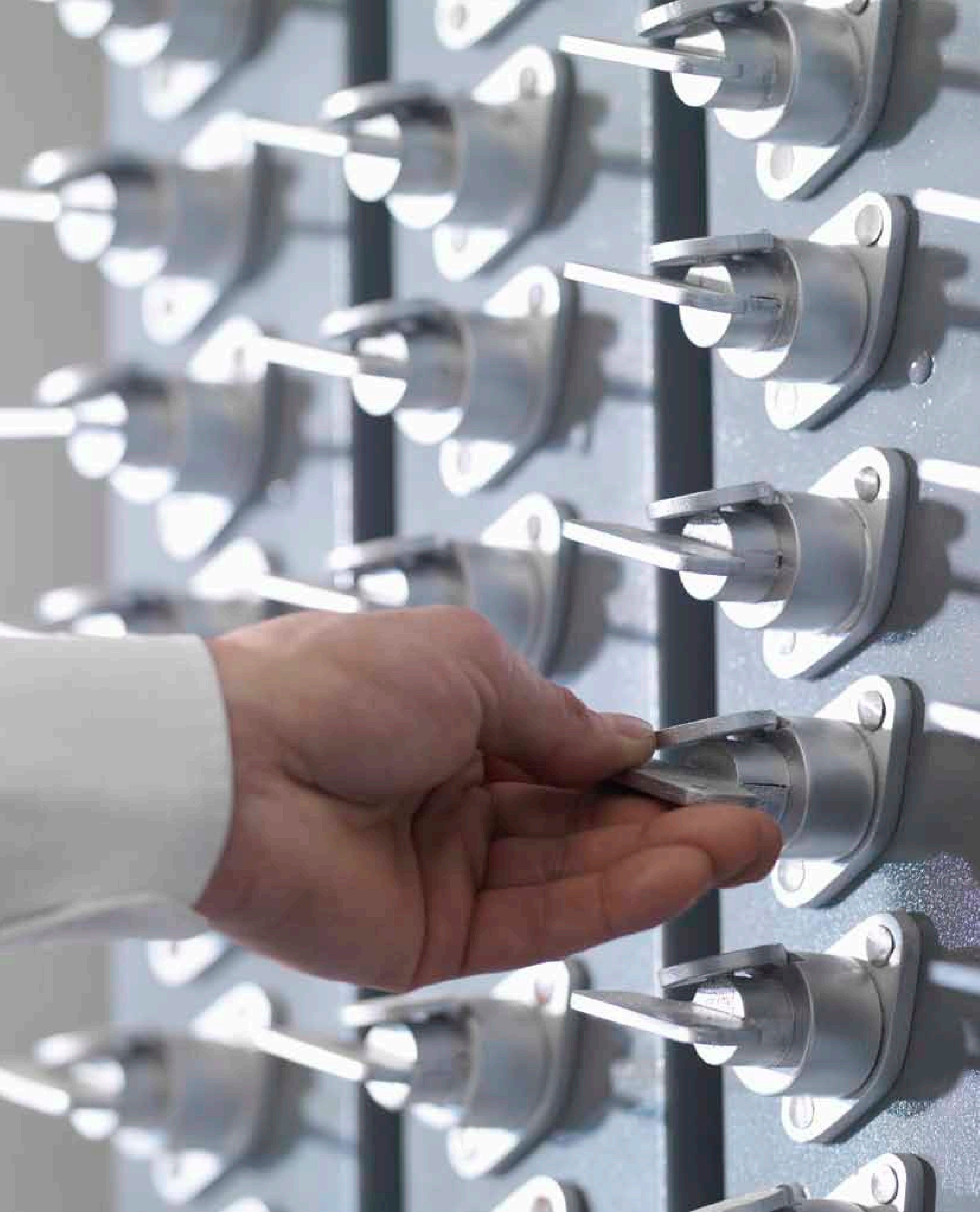
## Europe as it should be: a selective leader

Europe will remain a player in a polycentric world if it defines, selects and implements new kinds of economic and technological leadership. Our respondents point to four areas of differentiation:

1. **Green and digital:** investors see IT (24%) and cleantech (23%) as the top two drivers of European growth over the next two years.
2. **Tax-centric competitiveness:** to maintain its place and increase its share of the highly-competitive world FDI market, investors say Europe needs to lower taxes (34%) and reduce labor costs (28%).
3. **Cities:** when asked to list the key growth drivers in Europe's cities, investors said that major urban infrastructure projects (38%) and innovative business parks (31%) provide the strongest appeal for investment.
4. **Talent:** 82% of our panel see the diversity and quality of European skills as Europe's "leading-class" feature when it comes to attracting FDI.

### Five key points

1. Europe attracted **3,757 investment projects**, a 14% increase from 2009
2. FDI created **137,337 jobs** in Europe, a 10% increase from 2009
3. **26% of world FDI** goes to the EU, matching its share of world GDP
4. Investors perceive Europe (35% of votes) as the **second most attractive investment destination** after China
5. According to **82% of investors**, talent is Europe's world class feature



# The global context

## Competing in a polycentric world

**1** Though China is rated the world's most attractive investment region with a score of 38%, Europe ranks second in 2011 — awarded a score of 35% by investors.

**2** In 2010, emerging markets collectively harvested more than half of global inward FDI for the first time, though their performances varied: while the value of FDI into Brazil grew 16.3% on the back of commodities and consumption, the value India's inward investment fell 31.5%, slowed by strong competition for investment projects. China's FDI inflows grew steadily, underpinned by stable returns on investment.

**3** When considering where to invest in 2010, companies view transport and logistics infrastructure (63%), telecommunications infrastructure (62%) and stability and transparency of the political, legal and regulatory environment (62%) as the most critical factors.

## Understanding the economic context: the monopoly is broken

Rapid growth in emerging markets and the increasingly multi-directional flows of trade and investment have created a world in which opportunities, capabilities and competition are spread more evenly.

### Defining a polycentric world

In January 2010, Ernst & Young launched a report at the World Economic Forum in Davos, *Winning in a polycentric world*,[3] which examined the impacts of globalization on the world economy. The report showed that the globalization of the world's 60 largest economies will continue to deepen between 2010 and 2014. This polycentric world – with many but divergent spheres of influence – is the global context within which we evaluate European attractiveness.

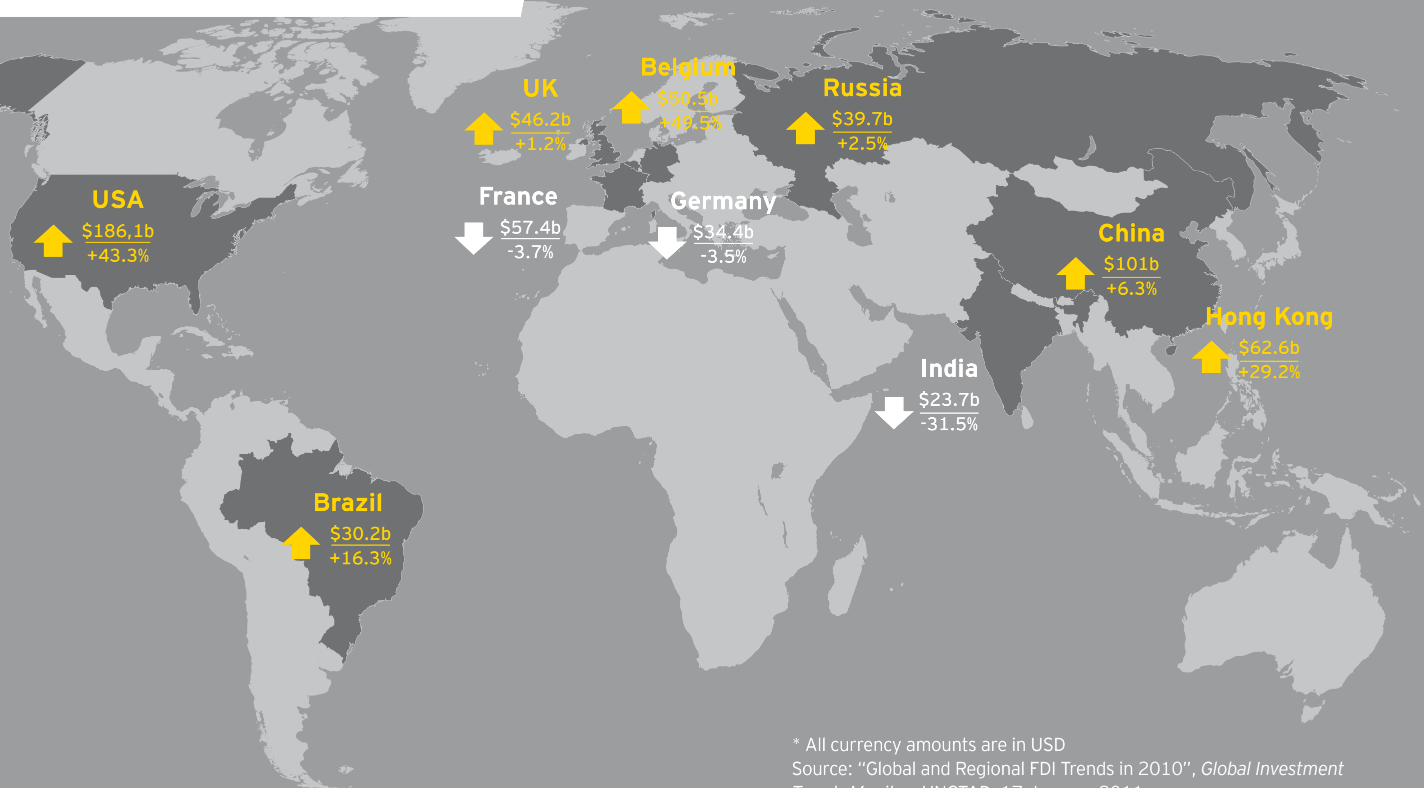
In the wake of the economic crisis, the gap between growth rates in emerging and developed economies widened as rapid growth in key developing markets has driven global recovery. In 2010, GDP in China grew by 10.3%, India by 9.7%, Brazil by 7.5% and Russia by 4.5%. The European Union, meantime, grew by a sluggish 1.8%. But the pace of growth in Europe in 2010 was far from uniform: Germany achieved 3.6% growth but this was an exception; most countries grew at less than 2%.[4] Divergent rates of investment growth between emerging and developed markets reflect a shift in the global economy. Emerging markets are seen as an increasingly important source of growth offering burgeoning numbers of accessible consumers. This rebalancing offers more investment opportunities around the world.

Large variations in market performance are forecast to continue. By 2015, China and India will have grown by 83% and 74% respectively while the UK and the Eurozone are forecast to have grown by only 11% and 7% .[5]

3. *Winning in a polycentric world: globalization and the changing world of business*, Ernst & Young, 2011.

4. *IMF World Economic Outlook* (WEO) Update, 25 January 2011.
5. *Competing for growth: winning in the new economy*, Ernst & Young, 2010.

## Top ten recipients of FDI by market capitalization in 2010*




* All currency amounts are in USD
Source: "Global and Regional FDI Trends in 2010", *Global Investment Trends Monitor*, UNCTAD, 17 January 2011.

## Global footprint in 2010: topography in a flat world

Global investment rose by just 0.7% in 2010, but this figure hides significant differences in performance. While the developed economies suffered a decline in FDI by 7% (despite US FDI inflows surging 43%), rapid growth economies received more than 50% of global FDI for the first time.

### A "new normal" for Europe

The FDI decline experienced by advanced economies centered on the economic difficulties in Europe, especially on concerns around the stability of the euro and the levels of sovereign debt in member countries. Many European companies hoarded cash and paid down debt rather than reinvesting, while non-European companies observed European economic instability without staking a bet.

The fall in Europe's share of global FDI inflows could be read as an indicator of its relative economic decline, but should rather be seen as Europe reaching its true market value. This shift marks the advent of a "new normal" situation where FDI inflows into the Europe Union (26% of global FDI) now match its share of world GDP. In the past ten years, developed economies have seen their commanding share of FDI slide from 70% to 40%, and the European Union's slice has narrowed from 43% to 26%.

On the other hand, the large FDI increase in the USA (43%) may be explained by the heavy reinvestment of earnings from foreign affiliates in the US economy by US and foreign companies. [6]

Despite the decline in value of FDI into Europe, relative to other global regions, investors continue to come to Europe. In fact the number of investment projects has increased by 14% from 2009 to 2010. However, these projects are smaller and less globally significant in their total value than projects in other regions.

6. "Global and Regional FDI Trends in 2010," *Global Investment Trends Monitor,* UNCTAD, 17 January 2011.

### Consistent growth and consistent ROI in China

China's overtaking of Japan to become the world's second-biggest economy marks a milestone after 30 years of rapid economic growth. FDI inflows into China continue to grow (+6.3%),[7] but at a slower pace than during the previous 10 years.

### India slips on competition for investment

Investor enthusiasm for India cooled spectacularly in 2010, causing the value of FDI inflows to fall by 31.5%.[8] The decline in capital intensity of inward investment resulted from strong competition for investment projects[9] and investment pattern diversification.

### Brazil soars on the back of commodities and consumers

Brazil experienced 16.3% growth in FDI, while its GDP grew by 7.5% in 2010. Now the world's eighth-largest economy, it could overtake Britain, France and Italy by the end of this decade with booming commodities, strong consumer spending and US$50b of infrastructure investments generated by the 2014 FIFA World Cup and 2016 Olympics.[10]

7. "Global and Regional FDI Trends in 2010," *Global Investment Trends Monitor,* UNCTAD, 17 January 2011.
8. "Global and Regional FDI Trends in 2010," *Global Investment Trends Monitor,* UNCTAD, 17 January 2011.
9. "Why is foreign direct investment into India declining?", *The Economic Times*, 6 October 2010, via Reuters.
10. "Alternative investments in Brazil. The buys from Brazil. This year's hot market for private-equity firms and hedge-fund managers", *The Economist*, 17 February 2011.

## Location criteria: same needs, higher expectations

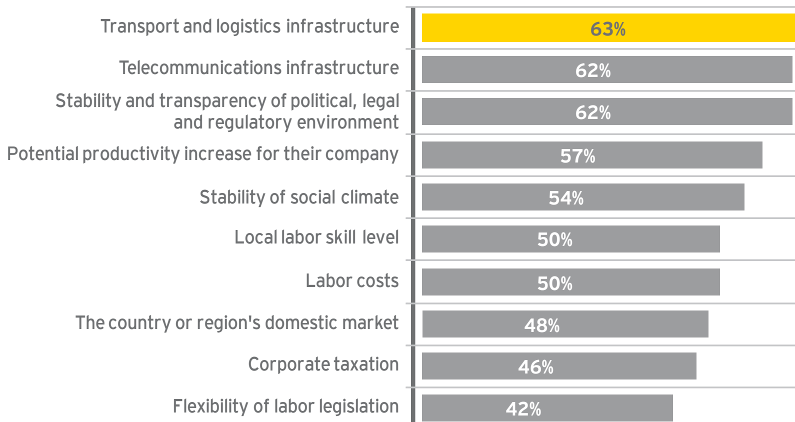
In turbulent times, international decision-makers want their investments easily accessible, by clients, staff and business partners, easy to connect with and protected by the rule of law.

When considering where to invest in 2010, companies view transport and logistics infrastructure (63%), telecommunications infrastructure (62%) and stability and transparency of the political, legal and regulatory environment (62%) as the most critical factors.

The next set of criteria addresses the ability for companies to remain productive (57%) in a very competitive world: finding skilled workers (50%), making sure that labor pools are reliable (54% want a stable social climate), while maintaining competitiveness (50% cite labor costs, ranked only seventh).

In turbulent times, international decision-makers want their investments to be protected by the rule of law, easy to connect with and easily accessible by clients, staff and business partners. These criteria have changed little from year to year but the emphasis on each has grown, suggesting that in a world of increased international mobility, reducing risks and unlocking incremental value and quality have become critical in investment decisions.

**What are the most important factors that a company takes into account when deciding on a location in which to establish operations?**




Respondents ranked each criteria, responses "very important" are shown. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

Viewpoint

# Restarting Europe's hubs and spokes

**Philip Dunne**
*President & COO*
*ProLogis Europe*

"Our position as a leading developer and manager of modern distribution warehouses across Europe gives us a unique insight into how markets are performing. Though we have seen a faster than anticipated rebound in global trade volumes, the pace of recovery varies from one European country to another.

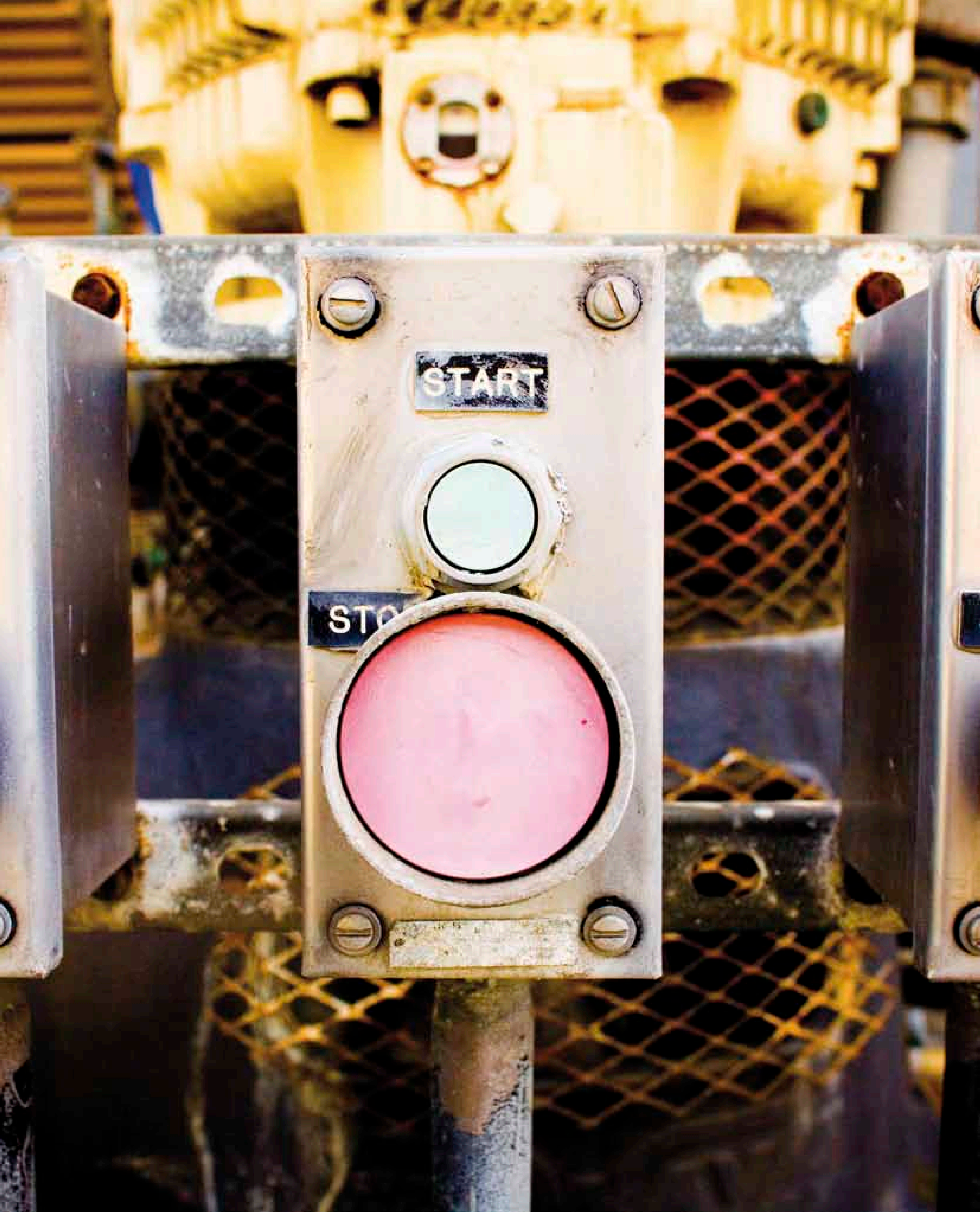
Supply chains across Europe have grown, especially with increased manufacturing in Central and Eastern Europe where transport links, though improving, still need a great deal more development.

That is one reason we need more multimodal connections where goods can be transferred between road, rail and water. Rail especially needs greater investment: policy-makers want to move more freight to rail, but today's rail networks can typically only absorb an additional 5% of capacity before they start to creak.

Failure to invest more in transport infrastructure could constrain the ability to import and export goods, and hence limit investment in manufacturing, especially in Poland, the Czech Republic, Slovakia and Hungary, now seen as attractive locations.

From a real estate perspective, the EU could harmonize regulations to make it significantly easier to access the different European markets. For example, when registering property, obtaining a title can involve many procedures and be time-consuming and costly.

Looking broadly, while there is no big-bang solution, there are many incremental things that could be done to make it easier to do business from country to country, and to free up the transportation of capital, goods and people."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# FDI in Europe

## Europe's true market value

1. The number of European FDI projects in 2010 topped pre-crisis levels, with a 14% year on year increase, reaching 3,757 FDI project announcements.

2. 137,337 new jobs were created by FDI in Europe, up 10% from 2009 and beginning to counter the decline that started in 2007.

3. UK and France remain FDI leaders in Europe, but they are losing market share to countries such as Germany and a host of smaller more cost-competitive countries, for example, Poland, Hungary and the Baltics.

4. FDI in Europe concentrated on business services, the software industry and the automotive sector. These sectors topped the lists for numbers of FDI projects and job creation.

5. 33% of foreign investors plan to establish or expand existing operations in Europe in 2011.

## FDI projects top pre-crisis levels

*Ernst & Young's European Investment Monitor* (EIM) reveals that Europe enjoyed a 14% increase in the number of FDI projects in 2010.

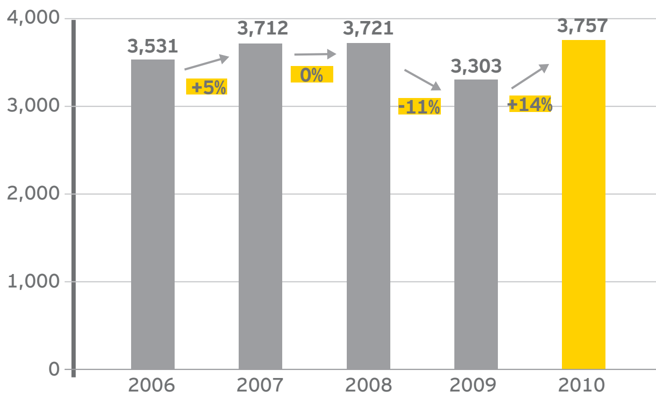
Despite Europe's slow economic growth compared with other regions of the world, investors came back to Europe. Total announcements of new investments and expansion of existing facilities rose to 3,757, matching pre-crisis levels.

The number of jobs created by FDI grew by 10% in 2010 and is complemented by an increase in the number of projects. The total of 137,337 FDI jobs began to counter the decline in job creation that has existed since 2006.

Looking to the future, companies see economic conditions in Europe improving. But while the total number of project has risen, leading to more jobs being created, investors continue to scale back the size of individual projects. As a result the average number of new jobs per project has remained flat, a new FDI projects in Europe typically created 70[11] jobs in 2010, compared with 69 in 2009 and 101 in 2006.

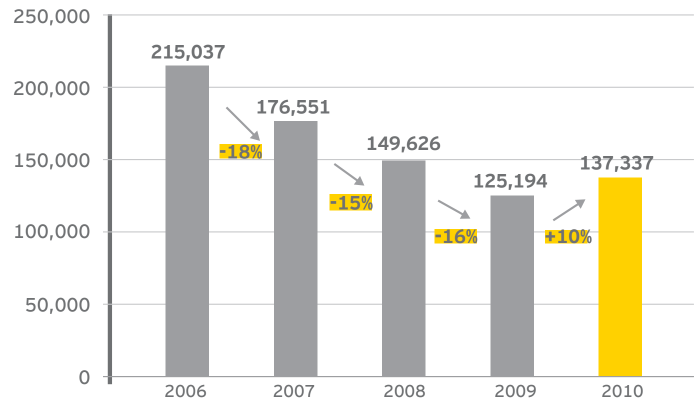
11. Not every FDI project reports job creation or results in job creation, therefore this number takes into account projects which report significant job creation

### FDI in Europe by investment projects




Source: *Ernst & Young's European Investment Monitor 2011*.

### FDI in Europe by job creation*




Source: *Ernst & Young's European Investment Monitor 2011*.
*Job creation for projects for which the information is available.

### Investment by activity

| | FDI projects 2010 | Share of total | Change 2009 -10 |
|---|---|---|---|
| Sales and marketing | 1,720 | 46% | 11% |
| Manufacturing | 1,021 | 27% | 23% |
| R&D | 286 | 8% | 17% |
| Logistics | 254 | 7% | 3% |
| Headquarters | 165 | 4% | -15% |
| Contact center | 67 | 2% | 14% |
| Shared services center | 48 | 1% | 109% |
| Other | 196 | 5% | 19% |
| Total | 3,757 | 100% | 14% |

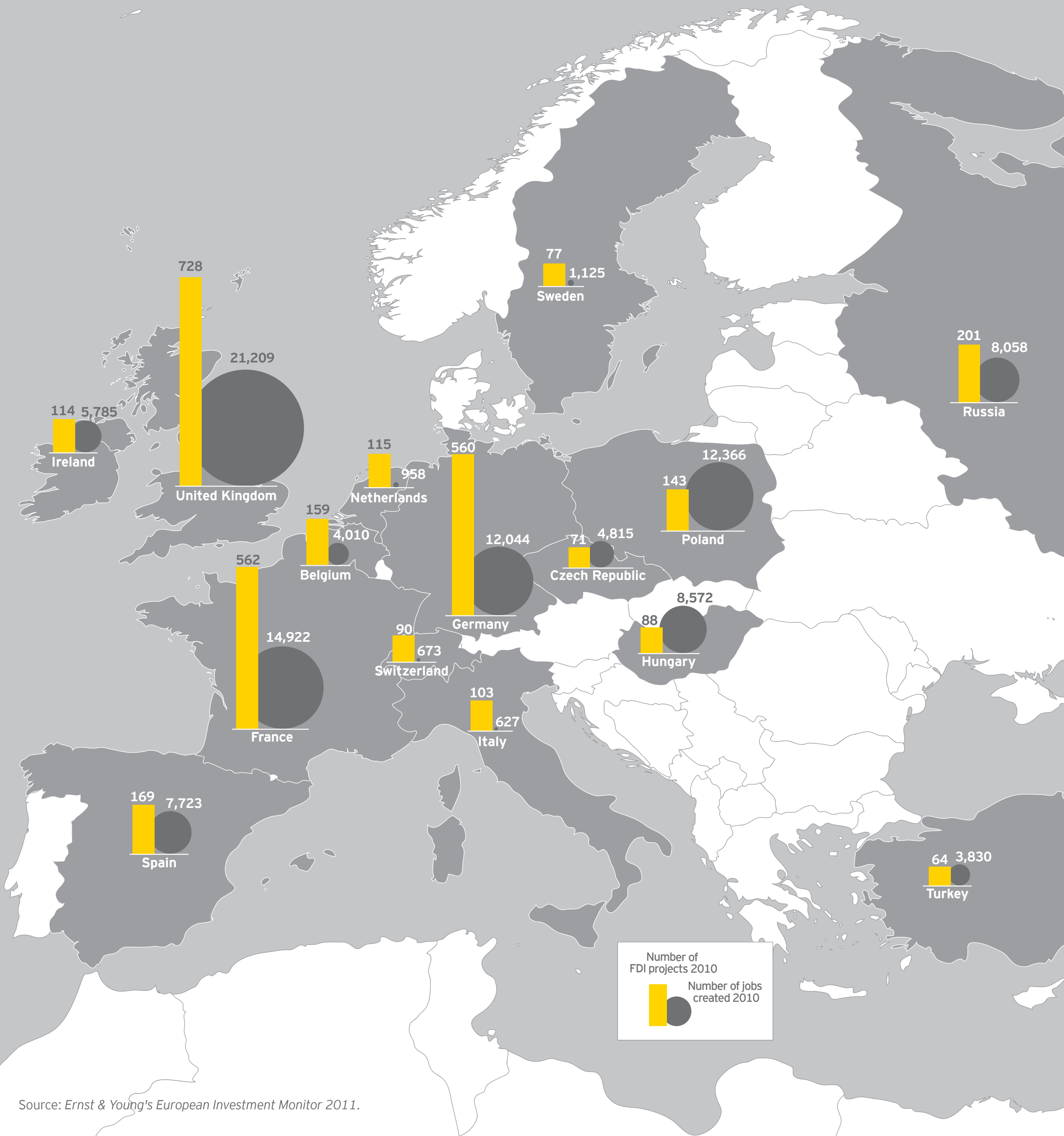
Source: *Ernst & Young's European Investment Monitor 2011*.

### Type of investment

| | FDI projects 2010 | Share of total | Change 2009 -10 |
|---|---|---|---|
| New project | 2 613 | 70% | 9% |
| Expansion project | 1 144 | 30% | 27% |
| Total | 3 757 | 100% | 14% |

Source: *Ernst & Young's European Investment Monitor 2011*.

# Foreign investment in top 15 European countries in 2010




Source: *Ernst & Young's European Investment Monitor 2011.*

## Where did investment go in 2010?

In this section, we focus on a selection of high and medium performers, who we feel reflect the diversity of investment situation in Europe.

### Winners

- **UK**: The UK maintained its leadership in FDI projects and FDI jobs, which grew by 7% and 6% respectively. Investors came to the UK for its strength in services and increasingly its industry, investing in business services (14% of the projects received), machinery and equipment (11%), computers (7%) and software (7%). The UK remains a highly attractive destination given its position as a global player in the world economy and its capacity to reform a difficult economic situation. Furthermore, the weaker pound has enticed investors already considering the UK for service sector investments to evaluate its industrial potential as well.

- **Germany**: Investors increased their FDI projects in Germany to 560 project announcements, amplifying its total market share to 15% of FDI projects in Europe (from 12% in 2009). Investors are attracted to Germany for opportunities in business services (15%), machinery and equipment (9%) and software (9%), reflecting an economy that leads in industrial production and high value-added services. Investor confidence in Germany results from the country's strong economic growth outlook (3.6%), sound fiscal policy and entrepreneurial culture.

- **Poland**: Another strong performer, Poland experienced a rapid rise of 40% in the number of FDI projects that it attracted. This resulted in a rise in Poland's market share of job creation from 6% in 2009 to 9% in 2010. Poland has attracted investors in automotive (12%) and business services (8%). With strong economic growth prospects, low costs and growing numbers of consumers, Poland is a very attractive investment destination for industrial companies looking to locate in Europe.

- **Hungary**: The number of FDI project announcements soared by 38% and job creation from FDI grew by 20% to a total of 8,572. Investors came primarily to Hungary to invest in automotive (16%), but also in machinery and equipment (15%) and electronics (10%). Hungary attracts high value-added industrial investment, given its highly skilled labor force and its competitive cost base.

- **Baltics**: The number of projects has increased from 33 to 61 with Lithuania leading the region, with 31 project announcements. Investors come to the Baltics to invest in air transportation (25%), financial services (12%) and utilities (10%).

**The top 15 European coutries for FDI**

| Rank | Country | FDI projects 2010 | Change 2009 - 10 | Share of total | Jobs created* |
|---|---|---|---|---|---|
| 1 | United Kingdom | 728 | 7% | 19% | 21,209 |
| 2 | France | 562 | 6% | 15% | 14,922 |
| 3 | Germany | 560 | 34% | 15% | 12,044 |
| 4 | Russia | 201 | 18% | 5% | 8,058 |
| 5 | Spain | 169 | -2% | 4% | 7,723 |
| 6 | Belgium | 159 | 9% | 4% | 4,010 |
| 7 | Poland | 143 | 40% | 4% | 12,366 |
| 8 | Netherlands | 115 | 6% | 3% | 958 |
| 9 | Ireland | 114 | 36% | 3% | 5,785 |
| 10 | Italy | 103 | 3% | 3% | 627 |
| 11 | Switzerland | 90 | 30% | 2% | 673 |
| 12 | Hungary | 88 | 38% | 2% | 8,572 |
| 13 | Sweden | 77 | 33% | 2% | 1,125 |
| 14 | Czech Republic | 71 | 16% | 2% | 4,815 |
| 15 | Turkey | 64 | 10% | 2% | 3,830 |
| | Other | 513 | N/A | 14% | 30,620 |
| | Total | 3,757 | 14% | 100% | 137,337 |

Source: *Ernst & Young's European Investment Monitor 2011*.
*Job creation for projects for which the information is available.

## Mixed performance

- **France:** France captured 562 FDI projects in 2010 (6% more than 2010) and a 12% increase in job creation. However, France nearly lost its second position (by number of FDI projects) to Germany and its share of FDI in Europe softened from 16% to 15%. Investors came to France for business services (15%), software (9%) and machinery and equipment (9%). Despite its traditionally balanced appeal between services and industry, investors increasingly appear to see France as a service sector destination.

- **Belgium**: Belgium's share of FDI projects in Europe has stagnated at 4% of the European total. Despite this stagnation, the number of projects has increased by 9% since 2009 and the number of jobs created by FDI increased by 19% to 4,010. Investors created jobs in the Belgian: automotive sector (20%), financial sector (17%) and business services sector (17%), demonstrating that the country remains attractive to investors in both industry and services.

- **Ireland**: Ireland's share of FDI projects in Europe remained stable at 3%; however, the number of FDI projects increased by 36% (up to 114 FDI project announcements) and the number of jobs created reached 5,785. Surprisingly unfazed by Ireland's financial troubles, investors invested primarily in business services (19%), software (11%) and insurance and pensions (10%). Investors continue to come to Ireland primarily for its low tax rate, its highly skilled workers and, since 2008, its increasing cost competitiveness.

- **Czech Republic**: FDI projects have increased by 16% in the country and the number of jobs created has increased by 22%. Investors went to the Czech Republic to invest in automotive (12 FDI projects) and business services (9 projects) as well as logistics (7 projects). Investors remain attracted to the Czech Republic's good quality infrastructure and high-quality labor force.

- **Spain**: The number of FDI projects in Spain declined in 2010 by 2% while job creation reached 7,723. Spain's share of FDI projects in Europe also slipped from 5% in 2009 to 4% in 2010. The dichotomy between the decline in FDI projects and the increase in job creation resulted from three automotive projects that made up 70% of the jobs created. Despite the impact of the automotive projects, the majority of investors came to Spain for business services (17%) and software (14%).

- **Russia**: Although Russia attracted an 18% increase in FDI projects, it suffered a decline in job creation. Furthermore, Russia's share of investment projects in Europe remained stagnant at 5% (in number of projects). Investors came to Russia to invest in automotive (33%), chemicals (19%) and wood (13%). Although broadening its attractiveness, greenfield investors primarily came to Russia for raw materials and industrial projects.

- **Italy**: Despite a 3% increase in investment projects, Italy records 1,328 fewer jobs created on the previous year. Furthermore, its share of FDI projects remained stagnant at 3%. Investors came to Italy for projects in business services (12%), financial services (10%) and software (9%).

**FDI: Western Europe* and Central and Eastern European** split**

| Region | FDI projects 2010 | Change 2009 - 10 | Jobs created 2010*** | Change 2009-10 |
|---|---|---|---|---|
| Western Europe | 2,832 | 11% | 71,965 | 21% |
| Central and Eastern Europe | 925 | 22% | 65,372 | -1% |
| Total | 3,757 | 14% | 137,337 | 10% |

Source: *Ernst & Young's European Investment Monitor 2011.*
** Western Europe includes the following countries: UK, France, Germany, Spain, Belgium, Sweden, Switzerland, The Netherlands, Ireland, Denmark, Italy, Austria, Portugal, Finland, Greece, Luxembourg, Norway, Malta, Iceland, Monaco and Liechtenstein.*
*** Central and Eastern Europe includes the following countries: Poland, Hungary, Russia, Czech Republic, Romania, Slovakia, Bulgaria, Turkey, Serbia, Ukraine, Lithuania, Estonia, Latvia, Croatia, Slovenia, Bosnia and Herzegovina, FYRO Macedonia, Albania, Belarus, Moldova, Cyprus, Montenegro.*
*** Job creation for projects for which the information is available.

## The three engines of European attractiveness

The engines of European growth provide one third of investment projects and show a mixed profile between services, traditional industry and technology.

### Business services and software

- **Fact**: 561 FDI projects and 11,065 jobs created across Europe by FDI in business services. Providing the largest volume of FDI projects in Europe, FDI projects in business services total 15% of FDI projects and 8% of jobs created. The number of business service projects ramped up by 15%, with a hefty 65% surge in the number of jobs created. Within business services, the number of shared services centers (back and middle office operations) projects doubled in 2010, creating 54% more jobs. The software industry generated 379 FDI projects and 5,982 new jobs. Software creation, development and maintenance is the second largest driver of investment into Europe. It provides 10% of all European FDI projects, and 4% of FDI jobs. Sector dynamics are strong: software provided 15% more projects and 7% more jobs in 2010.

- **Perspective**: These services require an educated workforce. Investors perceive Europe as offering skilled labor: 82% mentioned a high-quality labor force as one of Europe's core strengths. Investors also recognize Europe's muscle in IT: 24% of investors perceive IT as a major source of future growth for Europe.

- **In the field**: Business services led service sector growth, with a large investment by Accenture creating 875 jobs in France and IBM employing 2000 people in Poland in an IT shared service center. In software Tieto (a joint Swedish/Finnish company) and AVG Technologies (Netherlands) created 500 and 400 jobs respectively in Central and Eastern Europe.

**FDI in Europe by business sector**

| Rank | Sector | FDI projects 2010 | Change 2009-10 | Share of total | Jobs created* |
|---|---|---|---|---|---|
| 1 | Business services | 561 | 25% | 15% | 11,065 |
| 2 | Software | 379 | 15% | 10% | 5,982 |
| 3 | Machinery and equipment | 267 | 14% | 7% | 7,756 |
| 4 | Automotive | 258 | 106% | 7% | 33,090 |
| 5 | Electronics | 182 | 6% | 5% | 9,706 |
| 6 | Financial intermediation | 178 | 10% | 5% | 3,957 |
| 7 | Other transport services | 175 | 29% | 5% | 3,148 |
| 8 | Chemicals | 154 | 1% | 4% | 4,237 |
| 9 | Food | 144 | -11% | 4% | 5,116 |
| 10 | Electrical | 139 | 9% | 4% | 4,642 |
| 11 | Pharmaceuticals | 123 | -12% | 3% | 4,683 |
| 12 | Plastic and rubber | 114 | 24% | 3% | 4,319 |
| 13 | Fabricated metals | 94 | 15% | 3% | 3,398 |
| 14 | Scientific instruments | 92 | 26% | 2% | 2,913 |
| 15 | Non-metallic mineral products | 75 | -9% | 2% | 2,429 |
| 16 | Publishing | 55 | 0% | 1% | 823 |
| 17 | Telecommunications and post | 53 | -10% | 1% | 769 |
| 18 | Other transport equipment | 48 | -6% | 1% | 2,149 |
| 19 | Scientific research | 47 | 4% | 1% | 719 |
| 20 | Air transport | 45 | 67% | 1% | 1,735 |
|  | Other | 574 | N/A | 15% | 24,701 |
|  | Total | 3,757 | 14% | 100% | 137,337 |

Source: *Ernst & Young's European Investment Monitor 2011*.
*Job creation for projects for which the information is available.

## Automotive

- **Fact**: 258 FDI projects, 33,090 jobs created across Europe. The automotive sector doubled in 2010 and provided 25% of the jobs created by FDI projects in Europe. Despite the large increase in projects, there was no growth in the number of jobs created.

- **Perspective**: Trends in the automotive sector reflect overall trends in the European FDI market, which has seen a 23% increase in European manufacturing FDI projects. More than half (57%) of jobs created by FDI in Europe are in manufacturing. This confirms a prediction from investors in last year's European attractiveness survey: 70% proclaimed that they would continue to manufacture in Europe. Many are.

- **In the field**: Volkswagen was the largest investor in terms of number of projects and second largest in number of jobs created. General Motors (US), Chery Automobile (China) and Volvo, a Swedish/Chinese auto manufacturer, were also key investors, showing that Europe is an attractive investment location for non-European companies.

## Innovation and technology

- **Fact**: In 2010, research and development (R&D) was one of the hottest growth sectors in Europe. Of all inward FDI, 8% were R&D projects, and they provided 8% of jobs. Leveraging its strength in scientific development, Europe also attracted 204 projects in renewable energy in 2010, up 29% on the previous year, providing 6,782 jobs, a 4% increase on 2009.

- **Perspective**: Investors see Europe as a center for developing tomorrow's technology. Overall, 23% of investors believe that cleantech will drive European growth in the future, underpinning rising investment in the sector in 2010. Furthermore 75% of investors cite Europe's research and innovation capacity as a driver for their investment decision, which explains why so many companies invest in European R&D activity.

- **In the field**: R&D centers were established and expanded primarily in the UK (which captured 28% of total R&D projects into Europe), France (19%) and Germany (10%). European R&D skills are valued by US clients, such as GE, IBM, Microsoft and Intel.

### Companies that created the most job through FDI

| Rank | Company name | Jobs created* |
|---|---|---|
| 1 | Hewlett-Packard | 4,174 |
| 2 | Volkswagen | 3,910 |
| 3 | Chery Automobile | 3,000 |
| 4 | IBM | 2,350 |
| 5 | General Motors | 1,750 |
| 6 | Yura Tech | 1,750 |
| 7 | PSA Peugeot Citroen | 1,700 |
| 8 | Nestle | 1,698 |
| 9 | Magna International /GS Yuasa Corporation/Mitsubishi Corporation | 1,500 |
| 10 | Jabil Circuit | 1,250 |
| 11 | Robert Bosch | 1,213 |
| 12 | ISD | 1,150 |
| 13 | Tata | 1,145 |
| 14 | Siemens | 1,140 |
| 15 | Lego | 1,105 |

Source: *Ernst & Young's European Investment Monitor 2011*.
*Job creation for projects for which the information is available.

## Europe's historic investors top the rankings

Europe remains attractive for traditional investors from North America and Europe while attracting new investors from Asia.

- **From North America**: North American companies continued to invest heavily in Europe. The United States retained its position as the top investor in Europe in 2010, accounting for 26% of FDI projects and 28% of jobs created. Key investors included General Electric, FedEx, IBM and General Motors. HP created the most jobs in Europe with IT-related investment projects. US investors reinforced their large and often long-standing presence in Europe.

- **From Europe**: In total, Europeans are the largest investors in Europe, with 9 European countries ranked in the top 15 investors in Europe. Among European countries, Germany stands out as it is the second largest investor in Europe, accounting for 10% of FDI projects and 18% of job creation. Germany's Volkswagen is the second largest investor in Europe, both in terms of projects and jobs created. Other large German investors in Europe include automotive and technology group Bosch and rail company Deutsche Bahn. Taking advantage of low interest rates and a growth in corporate profits at home, German companies are looking to expand their investments while consolidating their European base.

- **From Asia**: Asian countries continue to find investment opportunities attractive in Europe, in particular, investors come from: Japan, China, India and South Korea. An important newcomer to the ranks of leading investors in Europe, South Korean investors created 4% of the jobs in Europe from 67 projects (15th place in Europe). Two groups in particular drove this increase: Yura Tech, a car ignition systems manufacturer, invested in the buoyant European automotive sector, and electronics company Samsung Corp which launched 11 investment projects, mostly expanding its electrical manufacturing capacity in Europe.

### Principal sources of FDI in Europe

| Rank | Countries | FDI projects 2010 | Change 2009-10 | Share of total | Jobs created* |
|---|---|---|---|---|---|
| 1 | USA | 972 | 24% | 26% | 37,979 |
| 2 | Germany | 390 | 9% | 10% | 17,487 |
| 3 | United Kingdom | 227 | 13% | 6% | 4,034 |
| 4 | France | 187 | 0% | 5% | 6,270 |
| 5 | Switzerland | 152 | 22% | 4% | 5,826 |
| 6 | Netherlands | 149 | 18% | 4% | 2,844 |
| 7 | Japan | 143 | 10% | 4% | 5,537 |
| 8 | China | 115 | 4% | 3% | 5,220 |
| 9 | Sweden | 99 | 5% | 3% | 3,317 |
| 10 | Italy | 99 | -8% | 3% | 4,430 |
| 11 | India | 94 | 32% | 3% | 2,772 |
| 12 | Spain | 86 | 12% | 2% | 2,449 |
| 13 | Austria | 76 | -6% | 2% | 2,481 |
| 14 | Canada | 74 | 4% | 2% | 2,570 |
| 15 | South Korea | 67 | 148% | 2% | 5,147 |
| | Other | 827 | N/A | 22% | 28,974 |
| | Total | 3,757 | 14% | 100% | 137,337 |

Source: *Ernst & Young's European Investment Monitor 2011*.
*Job creation for projects for which the information is available.

Viewpoint

# Restarting Europe's consumer market integration

**Thomas Seifert**
*President*
*Coleman EMEA*

"Coleman serves the outdoor leisure market worldwide with equipment ranging from stoves and lanterns to barbecues, tents, sleeping bags and kayaks. We are well established in Europe with four brands, Coleman, Campingaz, Sevylor and Aerobed which we acquired only last year. We operate two factories, in France and Italy.

Along with the US and Japan, Europe is a very attractive consumer market for us. The outdoor business is growing strongly throughout Europe, with double-digit growth in some countries reinforced by a trend to lower-cost camping holidays in the wake of the financial crisis.

Strong in France, we see huge potential in the UK, Germany, Russia and Poland, with their outdoor heritage.

But we face two big challenges in serving consumers here. Much national legislation differs from European standards. For example, in Germany, you have to provide a two-burner stove with a flame-safe device, while in France you must label a kayak with particular warnings.

To comply with differing barbecue regulations in Germany, France and the UK, we must produce three different models of the same product.

Similarly, the REACH regulations for chemicals are a good idea, but they are 1,000 pages long, complex and subject to national interpretation. They need to be simpler.

Complying with diverse regulations and standards is very time-consuming. It probably adds 10% to the cost of a product, and it slows our ability to react to changing consumer needs.

Also, we are obliged to source some products in the Far East, but delivery times of 90-120 days limit our ability to react to demand fluctuations in a seasonal business. Our research and development in France receives a research tax credit, making our French operation more competitive. That is a great model that other European countries could apply, and it would help us to keep some production in Europe.

If Europe could harmonize legislation effectively and give more support to innovation, we would have a better business."

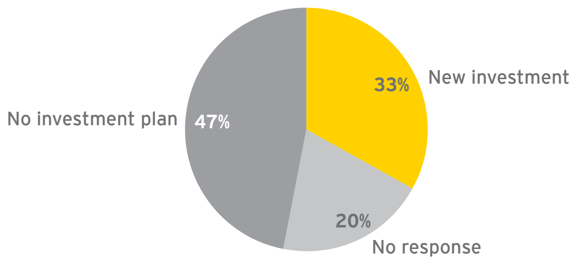
## Immediate future: Europe maintains its customers

While Europe's share of global FDI has eroded, its attractiveness as a business destination remains solid. Companies continue to invest in Europe, especially those that have a strong historical presence.

Our European Investment Monitor shows a clear recovery in FDI projects and jobs. Feedback from our survey panel of 812 business executives confirms that enthusiasm for investing in Europe has strengthened. In 2011, there was a 5% increase in the number of companies looking to invest in Europe, and a 6% fall in the number of investors with no plan in Europe. Europe may not be able to recapture its previous position of dominant world FDI leader, but it will continue to attract many investors.

Almost a third of investors, 33%, claim they will invest in Europe this year. Of these, 44% are expanding existing facilities; only 1% of the companies established in Europe plan to relocate to another country.

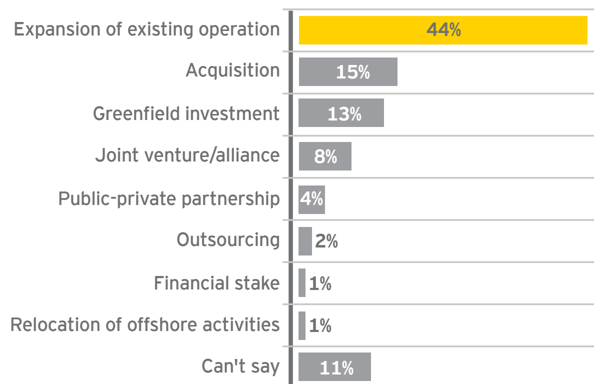
**What are your investment plans over the next year in Europe?**




Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

Clearly Europe has a loyal client base of investors who are confident about future opportunities in the region. While not ready to pour money into the economy today, they look set to continue investing at a moderate rate and have few plans to leave.

**What type of new investment?**




Total respondents: 264.
Source: *Ernst & Young's 2011 European attractiveness survey.*

In our increasingly competitive polycentric world, no region can hope to be attractive to two-thirds of foreign direct investors, as Europe was not so long ago. However, to ensure the necessary modernization of their economies, leading regions, including Europe, must aim for a percentage that exceeds their share of world GDP. For Europe, that means attracting at least a quarter of global FDI. To attain high investment levels, regions need to have a known niche in the global economy. Today, some attract because of low labor costs, others because of their rapid growth. But as economies develop, so does the need to acquire a recognized degree of specialization. Silicon Valley in the US is a very well known example. It is well regarded as a business cluster reputed not just for software but also for clean technology and for financial infrastructure that supports start-ups. India has built global strength in back-office operations, software and consulting, thanks to a highly educated, English-speaking workforce.

Europe is known for being high-cost but stable, with high-quality output. To expand the number of companies looking to invest in Europe, it will need to find ways to lower its costs without damaging its value proposition around innovative, productive and efficient outputs. Businesses can look internally, to design and process innovation but some are also clearly calling for lighter tax burdens to help make their European investments more cost-effective.

## Focus: Europe's future clients China and India

*Ernst & Young's European Investment Monitor report.*

China remained among the top 10 investors in Europe, both by jobs created and number of projects. China's share of investment in Europe remained stable at 3%, with a 4% increase in investment projects. However, jobs created by Chinese investment fell by 38%, this translated into a fall in China's share of European jobs created from FDI from 7% to 4%. Indian share of investment remained flat, comprising 3% of the European total and the 11th largest in ranking. Job creation from Indian projects fell 20% from 3% of the European total in 2009 to 2% in 2010. The combined investment from Chinese and Indian companies has remained stable at 6% of the European total.[12]

This stagnant performance from two of the fastest growing economies is a challenge for Europe. According to the Ernst & Young *Indian attractiveness survey*, 71% of investors with international plans choose to keep their investment projects in India. The internal attractiveness of both the Chinese and the Indian market with rapid-growth, could explain why investors from both India and China are not rushing to invest in Europe, which struggled to have a GDP growth rate of 1.8% in 2010.[13]

Europe cannot keep its position as a powerful global economy if multi-national companies from rapid growth economies invest only minimally in Europe to maintain a presence rather than look for economic opportunity.

12. *Ernst & Young's European Investment Monitor 2011.*

13. IMF World Economic Outlook (WEO) Update, 25 January 2011.

1. Though China is perceived as the world's most attractive investment region with a score of 38%, Europe is perceived as second in 2011 – awarded a score of 35% by investors.

2. Reflecting a more polycentric world, the spread in attractiveness scores has decreased between 2005 and 2011, from a 60 to a 30 point spread between leaders and challengers. All areas, and notably Europe, have been selected by fewer decision makers as votes are spread more evenly.

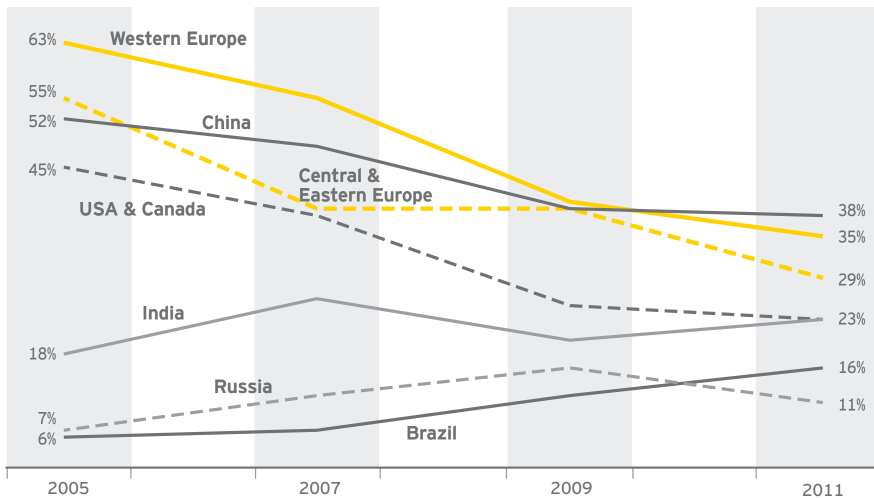
3. Investors also see Europe's strengths in a high-quality and diverse labor force (82%), a society that emphasizes social responsibility (77%), a predictable business environment (76%) and a leading-class capacity in research and innovation (75%).

4. However, our respondents are concerned about Europe's low economic growth (33%), high taxes (30%) and high level of public debts (25%). To this they add political issues such as the lack of cohesive EU political and economic governance (23%).

## Perceptions 2011: intensive competition among global regions

In the future, no region will have a monopoly on attractiveness, as shown by the convergence of perceived attractiveness of investment destinations.

**What are the most attractive places in which to establish operations?**




Respondents gave three responses (this graph shows responses since 2005).
Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

### China leads global rankings

China leads Ernst & Young's global attractiveness rankings with 38% of votes, albeit a slight decrease from last year (39%). It is voted the number one potential destination by our panel.

China has all the necessary attributes to be a leading FDI destination, not as a low-cost production site, but as a major economy in its own right. China's overtaking of Japan to become the world's second-largest economy marks a milestone after 30 years of rapid growth. In 2010, Chinese GDP grew 10.3%. Since Deng Xiaoping launched his "Four Modernizations", production has multiplied 90-fold, exports have rocketed to reach US$1,580b and foreign exchange reserves totaled US$2,850b at the end of 2010.[14]

### Western Europe retains a strong appeal

Though its share of votes continues to decline, investors still see Western Europe as the second-most attractive region, close behind China. Despite disruptions from Europe's debt crisis, relative political stability and a predictable legal environment underpin the attractions of building on a base of proven investments.

A large market has the potential to become still more attractive as European single market harmonization measures become more effective. For investors, the combination of skilled labor, mastery of technology, and a capacity for effective innovation to develop products with global appeal are an additional draw.

### Central and Eastern Europe is back in the game

When asked to identify the world's most attractive investment regions, investors ranked Central and Eastern Europe in third place, behind China and Western Europe.

Companies that are investing in Europe are looking beyond Western Europe and increasingly see Central and Eastern Europe as offering dynamic, stable and skilled location alternatives at a lower cost. Even as global competition for FDI intensifies, reducing Europe's overall market share, companies keen to invest in the region are carefully weighing eastern options against those in the west. Though Central and Eastern Europe suffered a sharp economic decline in the wake of the 2008 financial crisis, sound macroeconomic management stabilized the fiscal situation and underpinned a return to growth in 2010. While the Eurozone struggled to attain 1.8% growth in 2010, Central and Eastern Europe grew at 4.2%.

Investors seeking to maximize returns are looking at the combination of labor costs and skills, and like what they find, in many cities and regions of Poland, Hungary or the Baltics (Estonia, Latvia and Lithuania) to name just a few solid contenders in the FDI race. These countries are re-emerging as lower cost near-shoring locations with a quality workforce on the doorstep of Western Europe.

14. Nicolas Baverez, "Sous les pavés de la place Tahrir, Tiananmen?", *Le Point*, 2 February, 2011.

## Regional gaps are decreasing

In the future, no region will have a monopoly on attractiveness, as shown by the spread of scores in 2005 compared with 2011. In 2005, the most attractive region scored 67% and the least attractive 4%. In 2011 the spread was between 38% and 11%, reflecting a more polycentric world in which emerging markets have become more attractive FDI destinations.

With Russia still a fairly complex option for inward investors (for small and medium-sized companies in particular), its attractiveness rating declined three points in 2011. Russia remains the seventh most attractive investment destination, as it attempts to correct an over-reliance on oil and gas exports and improve its risk landscape for investors.

India's position is fairly stable at 23% (up one point from 2010). This suggests that while FDI levels fell in 2010, when asked to rank India's attractiveness investors are not deterred by current regulatory issues. India's perceived specialization as a low-cost business process outsourcing (BPO) hub continues to appeal. As Ernst & Young's 2011 India attractiveness survey. *Reaching towards its true potential* notes, India is undergoing a transition in terms of investor perception of its market potential, bolstered by economic growth projected to surpass 8% annually.[15]

The US and Canada take fourth place, with 23% listing the region as a preferred FDI destination. The US benefits from its position as the world's number one consumer and industrial market, as well as from the weakening of the US dollar against the euro which increases the competitiveness of the US as an export location.

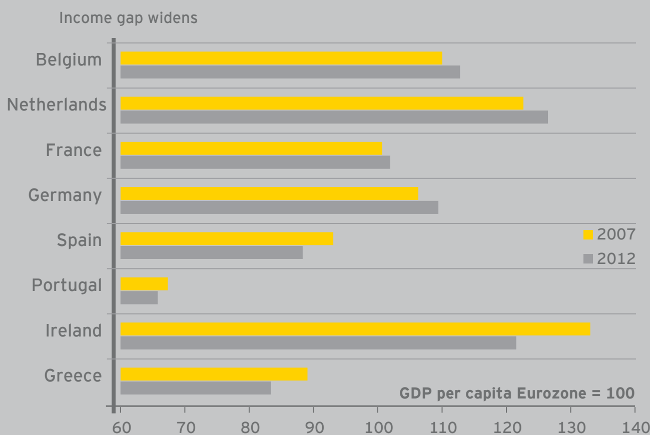
15. *Ernst & Young's 2011 India attractiveness survey. Reaching towards its true potential*, 2011.

## Focus: convergence and divergence within the Eurozone

We have updated our indicator of "convergence" within the Eurozone. The indicator looks at a broad range of measures in order to capture the many aspects of convergence. In particular, we look at convergence in the "levelw of both economic performance and in economic cycles. And, within each aspect, we look at several variables, including incomes (GDP per capita), prices, fiscal positions and labor markets. We then measure convergence/divergence by examining the cross-country standard deviations in these variables.

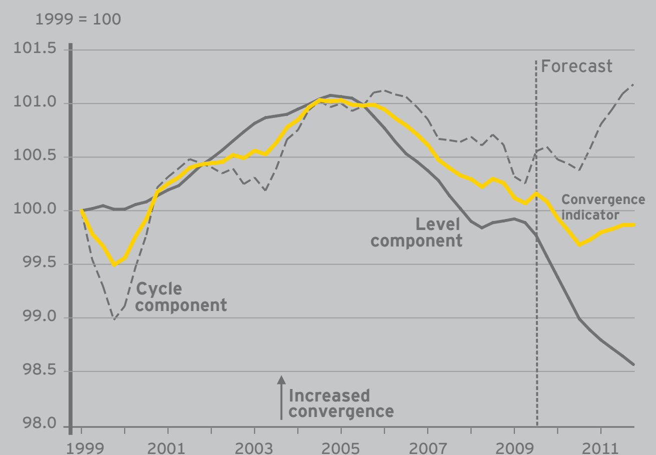
The results are shown in the charts below. Further divergence that had already been expected in the previous reports is now likely to be even more marked. Countries with relatively low income levels are expected to grow more slowly than average, so the income gap across the Eurozone is forecast to widen back to the level of the early 1990s. Cyclical developments are expected to become more similar across countries, largely because former outperformers in the South of the Eurozone are now expected to experience only muted growth, if any.

### What are the most attractive places in which to establish operations?




Source: *Ernst & Young Eurozone Forecast*, Winter edition, December 2010

### Convergence with the Eurozone




Source: *Ernst & Young Eurozone Forecast*, Winter edition, December 2010

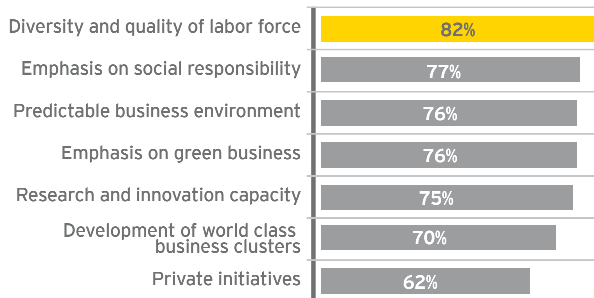
## Issues for Europe: how to renovate a mature economy

Investors, and particularly long-term investors, know Europe, its specialties and distinct location propositions – and they like what they see.

### Defining Europe's value proposition

Despite economic and political headwinds, investors recognize Europe's strengths. They note that Europe has a high-quality and diverse labor force (82%), a society that emphasizes social responsibility (77%), a predictable business environment (76%) and leading-class capacity in research and innovation (75%). This reputation for quality and the ability to innovate encourage companies to invest in Europe: they accept low growth and heavy regulation to obtain access to European abilities, craftsmanship and inventiveness.

**What are Europe's leading-class features?**




Respondents gave two responses. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

Perceptions are evolving, though. Europe's business environment is now seen as less predictable, its emphasis on social responsibility diminished. But its capacity for innovation is perceived to have improved. Do investors think Europe is becoming more open to change?

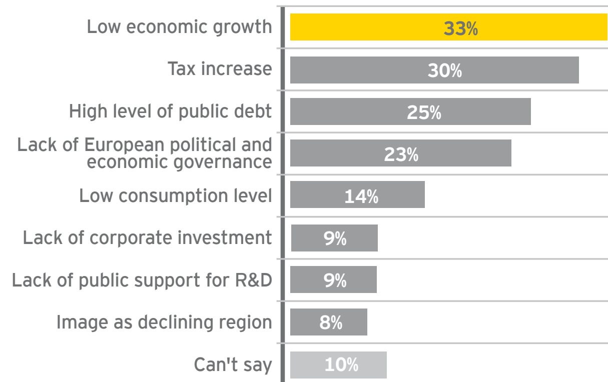
Europe's distinctive strengths are of benefit in a world where investors increasingly look to leverage the specific advantages found in every global region. High costs and slow growth are a handicap, but do not necessarily signal Europe's demise. Investors also value Europe's relatively predictable business environment, which potentially reduce risk and assures companies that their investment will not be expropriated by countries that do not respect the rule of law.

However, Europe's attractiveness model, built on a combination of high costs and high quality, may limit the number of investors able to afford its advantages. Rather than marketing itself as a high-quality luxury destination, Europe needs to find a way to maintain its quality while lowering costs, thereby expanding its investment client base.

### Tarnished by low growth and high taxation

According to our respondents, the primary economic challenges Europe faces are low economic growth (33%), high taxes (30%) and a high levels of public debt (25%). To this, they add political issues including the lack of cohesive EU political and economic governance (23%). Clearly, public deficits, the Eurozone debt crisis and the political difficulties encountered between EU states in seeking to resolve it are a deterrent to investors.[16]

**What are the major threats to Europe's attractiveness for foreign investors?**




Respondents ranked each criteria in terms of importance. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

Investors do not perceive Europe as a place where a new business can succeed with ease. In addition to weak consumer spending dynamics, they worry about its complexity and that returns on investment might not justify the tax rates.

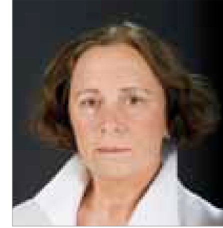
Looking ahead, investors need to come to terms with a Europe where economic fortunes are divergent and can range from GDP growth of 3.6% in Germany to contraction of 3.6% in Greece. As the Ernst & Young Eurozone Forecast shows, divergence between Eurozone economies is likely to increase. The sovereign debt crisis in southern Europe has underscored a need for investors to distinguish more rigorously between the prospects of national economies. Many companies are deeply indebted or hoarding cash and waiting for more clarity about the Eurozone outlook as well as global prospects — aware that their investment options may be constrained by banks' tighter lending controls.

16. "Foreword", *Ernst & Young Eurozone Forecast Winter Edition*, 1st December 2010.

Viewpoint

# Restarting the single market in services

**Ana Palacio**
*Former MEP*
*Former Foreign Affairs Minister of Spain*
*Former Senior Vice President and General Counsel of the World Bank Group*



"Europe's future is in the knowledge-based economy, where Europe has an important asset: our highly educated human capital. However, we have to raise the level of our higher education and reorient our academia to adapt to the new demands of the labor market, focusing on employment-relevant skills and vocational training.

The European Single Market project is a great advantage, as it offers a common regulatory framework and facilitates cross-border business. However, this project is not complete. A myriad of national legislation creates a major hurdle for cross-border businesses in crucial areas, such as financial services, insolvency laws and venture capital.

Cultural stigma attached to bankruptcy and the difficulty of accessing credit prevents many small– and medium–sized businesses from recovering from the crisis. The absence of Single European patent legislation obliges EU businesses to pay 15 times more to register an invention across 27 member states than their American counterparts do in the US.

Business conditions in many countries leave much to be desired. The World Bank's Doing Business report ranked Spain, a major European economy, number 147 out of 183 countries on starting a business, one point behind the Democratic Republic of Congo. Europe's internal market of 500m consumers and high level of spending has great potential. However, the EU needs to harmonize its internal market in services: this represents 70% of EU jobs, yet cross-border services account for only 5% of member states' GDP.

My conclusion: to improve internal market access, the EU needs to complete the Single Market in the services sector, especially in financial services, and simplify business conditions. That, together with the raising of education standards and a European vision, will ensure that Europe remains an attractive business location in an unstable world."

Viewpoint

# Restarting Europe's healthy regulation

**Florian Kemmerich**
*President,*
*Olympus Biotech Europe*

"Olympus Biotech Europe is a start-up within Olympus Corporation of Japan which is a leader in imaging technologies, and just recently a pioneer in regenerative medicine.

Our vision is to improve patient quality of life by developing and distributing regenerative medicine that stimulates the intrinsic healing capacity of the human body. Our technology helps regenerate bone and soft tissue.

Our Biotech European headquarter is in Lyon, France, and our operations in Limerick, Ireland.

Being a "pharma device" business with a complex distribution and supply chain, we strive to set up a very lean and true pan-European structure.

The European healthcare scene is very attractive, for multiple reasons. Our market growth comes from demographics: people are living longer and want to sustain their quality of life.

European regulation fosters innovation. Our products have to be approved as pharmaceutical devices. Yet with a single European approval we sell in 12 countries. Europe is energetic and competitive in developing and applying new applications and therapies to counterweigh the demographic trend in the search for cost-efficient patient care. The benchmarking between European countries helps to wind down trade barriers.

Similarly, countries compete for inward investment, for example by offering tax credits for research or setting up innovation clusters. Here in Lyon we are joining the Lyon Biopole, a global competitiveness cluster of pharma and biotech companies. Also most of the leading orthopedics companies are located here too. Therefore a pool of expertise and hugely qualified people is available.

But our drive to create a true pan-European business faces two challenges.

First, what is the best business and distribution model throughout the European nations while maintaining a lean structure?

Second, though we have a single European approval process, we have to adjust to every country's local reimbursement regulation and healthcare system. Each country has its own rules.

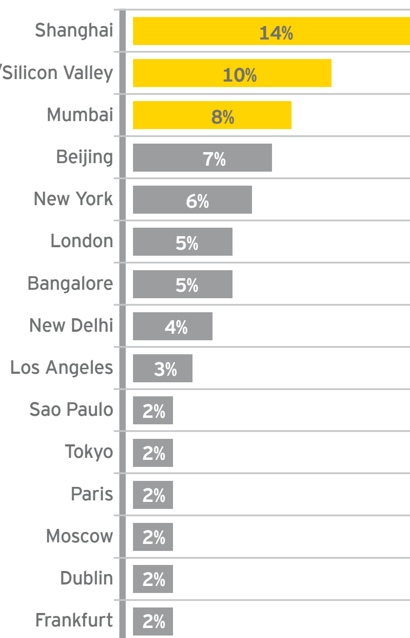
Hence, a single European market is not fully implemented yet. Nonetheless for us Europe is in many ways a very attractive region to operate compared with the US or Japan."

## Anemic or dynamic?

While investors see Europe as the destination for a high quality labor force (82%), there is a lack of support from our panel for European cities as future innovation hot spots (see chart on page 28). As the table below shows, only 4 cities in the top 15, and 1 in the top 10 (London) are viewed as having a chance of producing the "next Microsoft or Google".

Furthermore, the falling ranking of Europe's private initiatives and ability to build leading-class business clusters and stagnant faith in its green agenda demonstrate that inward investors see weight but little dynamism in these areas.

**Which cities have been the best chance of producing the "next Microsoft or Google" in the coming years?**




Respondents gave three responses, not shown: 32% can't say and 22% other.
Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

So, while our investors are optimistic, they've also flagged some areas of weakness. Whether the future is anemic or dynamic depends on two factors: innovation and specialization.

Over the past 10 years, thousands of executives have repeatedly told us that innovation and entrepreneurship are the origins of growth and are increasingly decisive factors for inward investment. Recognition of this view must be at the heart of Europe's competitiveness and attractiveness agenda.

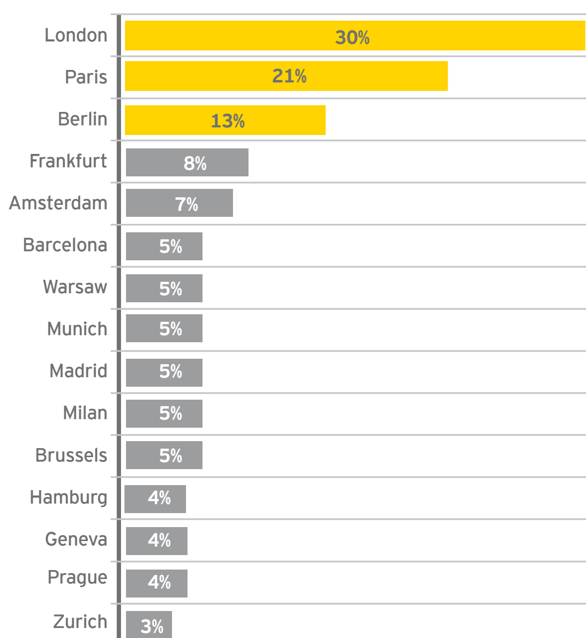
Europe cannot lead by the historic force of its GDP and affluent consumers. Europe is no longer an exception. It is no longer the leader: it has become a leader. The world has evolved from one of exclusive leadership to one of selective leadership. Countries and regions will increasingly identify, select and focus on new strengths and differences, and play to them, in order to remain attractive to foreign direct investors. While there is no easy solution to Europe's current challenges and economic tensions, it is critical to find new ways to compete, and more importantly, select the best way for Europe to play the game.

## Cities: does attractiveness match investment?

According to investors, London is the most attractive city in Europe to establish operations, standing nine percentage points ahead of its closest continental rival.

One of the ways Europe will come to terms with the concerns of its formidable investment base is to reconcile its economic weight (one-quarter of world's GDP) with the diversity of its location options. Countries excel in different sectors: the UK attracts financial services, Germany draws industrial investment and France does well in energy and utilities. These advantages may stem from historical trading positions, education systems that encourage engineering or government investment in quality infrastructure. The recognition of these strengths has fostered a multi-polar Europe, where investors see the attractions of different countries, regions and cities and can rate them according to where they are most likely to invest.

### What is the most attractive European city to establish operation?




Respondents gave three responses. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

A vivid illustration is provided by the way investors perceive Europe's cities. According to investors, London is the most attractive city in Europe to establish operations, standing nine percentage points ahead of its closest continental rival. Despite high costs and a transport system of variable quality compared with some continental competitors, London's dynamism attracts businesses and talents, especially in services, finance and business support, from diverse origins. Britain's economic culture also appeals because it is clearly pro-business, global and accessible.

### Top urban regions for FDI in Europe

| Rank | Urban Region | 2010 | Change 2009-10 |
|---|---|---|---|
| 1 | Greater London (London) | 289 | 9% |
| 2 | Ile de France (Paris) | 162 | -5% |
| 3 | Rhone Alps (Lyon) | 122 | 51% |
| 4 | Dusseldorf (Dusseldorf) | 73 | 0% |
| 5 | Autonomous Community of Madrid (Madrid) | 71 | 8% |
| 6 | Darmstadt (Frankfurt) | 68 | 31% |
| 7 | Moscow (Moscow) | 65 | 20% |
| 8 | County of Dublin (Dublin) | 62 | 35% |
| 9 | Lombardy (Milan) | 55 | 104% |
| 10 | Antwerp Provence (Antwerp) | 55 | 8% |
| 11 | Oberbayern (Munich) | 54 | 64% |
| 12 | Cataluna (Barcelona) | 53 | -20% |
| 13 | Stockholm County (Stockholm) | 48 | 55% |
| 14 | Noord-Holland (Amsterdam) | 45 | 22% |
| 15 | Koln (Cologne) | 42 | 35% |

Source: *Ernst & Young's European Investment Monitor 2011*.
Ernst & Young's analysis of urban regions based on Nuts 2 and Nuts 3 classification.

Other companies see distinct benefits in Paris (a solid second in our ranking), and in several cities in Germany, where Berlin leads 3 in the top 10 and ranks third Europe-wide.

Historic hubs such as Amsterdam and Brussels, and emerging capitals (Warsaw 7 and Prague 14, between Geneva and Zurich) enable Europe to offer a rich choice of high-quality urban environments. All provide access to business partners, skills and technologies and can draw international talent, while providing gateways into global, not just national, markets.

Viewpoint

# Restarting triumph in cities

**Edward Glaeser**
*Glimp Professor of Economics Harvard University, and author of Triumph of the City*

"Cities matter because they magnify humankind's greatest asset: our ability to learn from the people around us. Concentrations of urban talent create the onrushes of experience that forge human capital. Urban areas have long enabled the chains of collaborative invention – from Athenian philosophy to Viennese music to the creation of the skyscraper – that are responsible for our civilizations' greatest hits. The tectonic changes that impact our world, such as globalization and new technologies, have increased the returns to new ideas and innovation – and that has ultimately made cities more valuable than ever. Many European cities have come through from de-industrialization because the same urban density that once made it easy to move textiles onto railcars now speeds the flow of ideas.

The cities of Europe will succeed if they manage to attract and train smart people and give them the freedom to become innovative entrepreneurs. That recipe requires wise investments in education and less regulation, but it also means making cities both more pleasant and more affordable. History is both a blessing and a curse to great European cities. The beautiful buildings of cities from Bruges to Barcelona help attract mobile talent, but the urge to preserve often makes new construction almost impossible and that means that too many European cities have become unaffordable.

The great challenge for Europe's more successful cities is to provide more usable space in the attractive areas of the metropolis. The need for greater height is particularly obvious. The key is to find a middle ground that preserves that beauty and charm of the past, while allowing enough new apartments and commercial space for the future to still be made in Europe."

Interestingly, when investors' perception of cities is compared to the reality of where invest, there are some differences. London and Paris continue to lead the pack. Lyon beats the urban German regions for third place, and Berlin does not even place among the top German urban regions, being ousted by Dusseldorf, Darmstadt and Munich.

The Eastern European urban regions change as well. While investors perceive Warsaw and Prague as the top investment destinations, they put their money in Moscow. This indicates that although investors like the idea of stable, EU member states for their investments, they prefer the high returns that they can earn outside of the European Union.

The dichotomy between investor perception of cities and the reality of where they place their investments begs the question; can Europe develop a third "global city"? Currently London and Paris lead Europe in both investor perception and in number of FDI projects. Investors then perceive the German capital Berlin as the third most attractive investment destination. However, Berlin is more an administrative capital than an economic capital and does not rank in the top 15 cities for FDI projects in Europe. To become a global city, do cities need both the perception of power (government) and economic power (investors)? If that is the case, Madrid or Amsterdam appear more likely to accede to this position of leadership than the German capital.

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# Europe as it should be

## Selective leadership(s)

1 Green and digital: investors see IT (24%) and cleantech (23%) as the top two drivers of European growth over the next two years.

2 Fiscally competitive: to maintain its place and increase its share of the competitive world FDI market, investors say Europe needs to lower taxes (34%) and labor costs (28 %).

3 Opportunities in cities: when asked to list the key growth drivers in Europe's cities, investors said that major urban infrastructure projects (38%) and innovative business parks (31%) provide the strongest appeal for investment.

4 Global talent hub: 82% of our panel says that the diversity and quality of European skills is Europe's "leading-class" feature when it comes to attracting FDI.

## 1. Europe should be: digital and green

With continental and global champions ranging from Siemens and Alstom to Nokia and Barclays, investors see Europe as a natural center for high value-added goods and services.

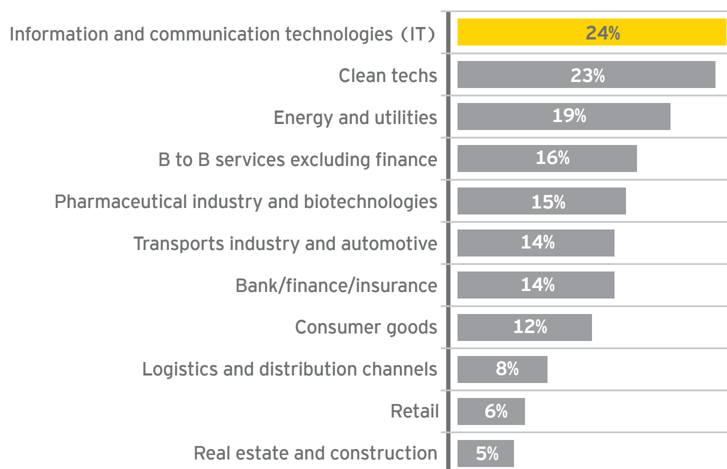
Yet investors overwhelmingly view two sectors, IT and cleantech, as the strongest drivers of European growth in the next two years.

Europe's emergence as a world leader in these sectors has been aided by consumer and industrial demand for technology, but also by pan-European policies designed to reduce carbon emissions and create a supply-side green economy. By specializing in products and services underpinned by leadership in technology and benefiting from its increasingly environmentally-conscious population, Europe can overcome the handicap of high costs and be a green and digital leader in global markets.

This year's survey demonstrates that while Europe builds its new future strength in IT and cleantech, it can also rely on a solid and more traditional breed of services and industries to capture growth for Europe in the next two years. Our respondents see potential for energy and utilities, financial and business support services, life sciences, automotive and consumer goods to make a difference in international markets.

However, fewer expect logistics, distribution, retail or real estate and construction to drive growth. They know consumers have reined in their spending, construction in much of Europe has slowed, property prices in many areas have been falling and credit is often less easily available.

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




Respondents gave two responses. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

Viewpoint

# Restarting Europe's digital innovation

**Jan Mühlfeit**
*Chairman Europe*
*Microsoft Corporation*

"Innovation is about making things better. Investment makes innovation happen.

European innovation is worth investing in. Whether it is big investments like our mega data centre in Dublin or our Cloud and Interoperability Center in Brussels, or investing funds and tools in funky startups, or supporting e-skills to get the maximum number of Europeans online, Microsoft helps drive Europe's innovation potential. With Europe's Digital Agenda gaining momentum, we are positive about Europe keeping its innovative edge.

I am encouraged, for example, by public sector administrations moving into the digital cloud, as recently successfully accomplished by the Regional Government of Catalonia. This allows them flexibility for the future – paying only for the services and infrastructure they use. Likewise, the building of smart cities, such as Paredes in Portugal, pairs innovation in cloud computing technology with the building trade. So far, this has greatly reduced over-ordering and waste through the building supply chain, and has wisely attracted strong government support.

The potential for innovation in cloud computing is limitless. The time for Europe to catalyze our tech-savvy experience is now."

## Focus: how the key developments are shaping the business world

*Ernst & Young's Tracking global trends: how six keys developments are shaping the business world.*

Ernst & Young's 2011 report *Tracking global trends*, analyzes some of the key developments shaping the business world, including in cleantech and technology.

The cleantech-enabled transformation to a low-carbon, resource efficient economy may be the next industrial revolution. As this transformation accelerates, global corporations are increasingly realizing that they must understand the impact of cleantech on their industries and develop strategic plans to adapt to this change.

*Going big: the rising influence of corporations on cleantech growth*, Ernst & Young's 2010 global survey of corporations with more than US$1b revenue, showed that cleantech is an organization-wide or business unit-level initiative for 89% of respondents; 33% spend 3% or more of total revenues on cleantech; and 75% expect cleantech spending to increase over the next five years. This transformation will be supported by governments, which view cleantech as a national strategic platform for creating jobs, fostering innovation and establishing local industries.

Over the past 25 years, the digital revolution has changed the way we work and play almost beyond recognition. Consumers want more powerful devices and applications, while businesses seek more cost-effective technology to cope with increasingly complex challenges. Satisfying these demands will lead to explosive growth in data and analytics, to new competition in almost every field, and to the disruption and realignment of many industries.

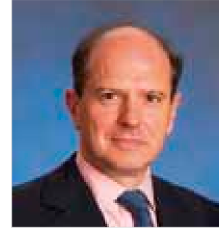
As smart devices become increasingly accepted, companies will move into adjacent markets to exploit new revenue models such as mobile commerce and mobile payment systems. Already, a number of data and tech giants are aggressively positioning themselves.[17]

17. *Tracking global trends*, Ernst & Young, 2011

Viewpoint

# Restarting finance for small and mid-cap companies

**Ronald Kent**
*Executive Vice President*
*NYSE Euronext and CEO,*
*NYSE Euronext London*



"Some 80% of listed issuers on NYSE Euronext's European exchanges are companies with a market capitalization of less than €1 billion. It's a clear indication of the important contribution that small- and mid-cap companies make to European innovation, growth and job creation.

To finance their growth and investments, these companies need access to affordable capital; they need available and functioning financing solutions from the financial markets. But following the financial crisis, many found their traditional sources of capital, such as bank lending and venture capital, have either dried up or that their terms became much less attractive.

Regrettably, EU public capital markets are not functioning as they should, especially for these smaller listed companies. Too few investors, brokers, research analysts and other participants are taking an interest in them. Many resources devoted to these market segments before the financial crisis have either exited or scaled back.

Exchanges, other market participants and some EU governments have sought to reinforce the liquidity, research and visibility of smaller companies. However, more action is required – at EU and national levels. It's essential that we create a more positive environment for small- and mid-caps to access public capital markets, and for investors to invest in them. It's also time to revisit some regulatory proposals (such as Solvency 2 and Basel III) that have had the unintended consequence of making it more difficult to invest in the equity or longer-term bonds of European small- and mid-caps, and so promote innovation and job creation.

There have been some steps in this direction. NYSE Euronext has shared in efforts to develop public capital markets for small- and mid-caps in France and is encouraging similar initiatives in its other European markets in Belgium, the Netherlands and Portugal.

Encouraged by Finance Minister Christine Lagarde, French initiatives have included adapting the legislative and regulatory framework and market rules to the needs of listed small and medium-sized enterprises (SMEs), including a proposal for a "Small Business Act of European exchange law" to support SME listing. Other measures include bolstering the presence of institutional investors on markets where SMEs are listed; promoting listing benefits to CEOs of small- and mid-cap companies; improving investor information; and creating a watchdog to monitor listed SMEs.

First results are encouraging: nearly 50 new SMEs joined our pan-European exchange platform in 2010 and nearly two-thirds of the IPOs on NYSE Alternext were backed by venture funds. This, to me, underlines the importance of linking private and public equity in the financing chain."

## 2. Europe should be: fiscally competitive

To maintain its place and increase its share of the increasingly competitive world FDI market, Europe needs to turn its attention to its business credentials, especially the cost of doing business in Europe.

According to global business leaders, European countries need to create a business environment with lower taxes (34%) and labor costs (28%).

Ireland's determination to maintain its low rates of corporation tax despite its heavy national debt burden reflects a belief that lower taxes are important to renew rapid economic growth. A decision by the UK Government in March 2011 to reduce its rate of corporation tax from 28% to 26%, with a target of 23%, is further evidence of emerging tax competition among countries to attract business and stimulate growth. Some countries prefer to offer attractive tax credits for innovation spending, a strategy that helps attract research and development centers to France, and which plays well to the upsurge in European FDI projects involving R&D facilities during 2010.

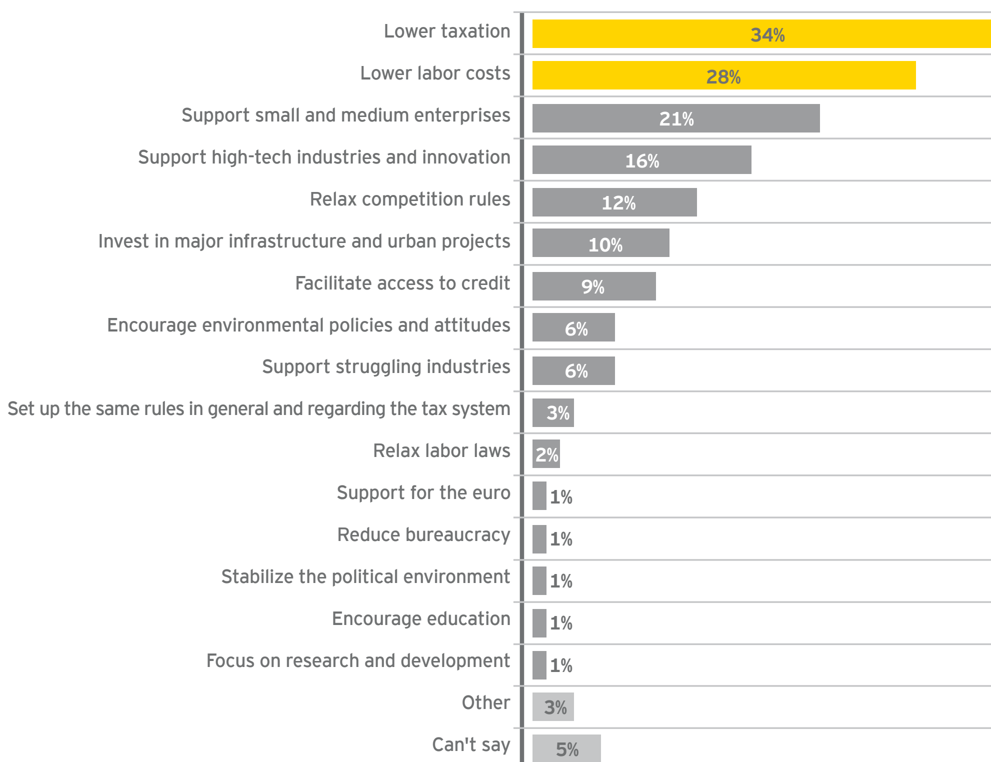
To cut general business taxes requires radical reforms in other areas: raising the age of retirement and seeking efficiency gains in public services, including through e-government, are among the strategies chosen, though often resisted by some citizens.

Additionally, our panel wants to direct the attention of policy-makers to the need to support entrepreneurship. Government initiatives should underpin small and medium-sized companies and innovation in high-technology industries. Europe's future attractiveness will rely on maintaining its reputation for quality while reducing business costs by cutting taxes and social charges. To do so will require a different kind of innovation: in finding many more ways to deliver government services – from health care to driving licenses, more efficiently, at lower cost.

Europe will also need to help structure a truly effective system of venture capital to enable promising new businesses of develop innovative ideas and become commercially successful. Europe's venture funding industry remains under-scale compared to that of the US, providing just €5-6b a year of funds.[18] Private equity firms may need to play a bigger role in financing long-term corporate growth, as well as industrial restructuring. And financial markets may need to go further in developing the capacity to finance fledgling companies.

18. *European Venture Capital Association: Closing gaps and moving up a gear: The next stage of venture capital's evolution in Europe*. March 2010

**What measures should be taken by European governments to stimulate European attractiveness?**



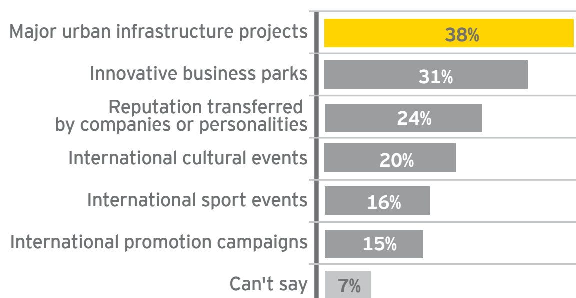

Respondents gave two responses, open question. Total respondents: 812. Source: *Ernst & Young's 2011 European attractiveness survey.*

## 3. Europe should have: opportunities in cities

Europe's companies and citizens are great innovators. Its engineers and scientists deliver important innovations to existing technologies, from lithographic printers to high-speed trains, enhancing performance and improving individual experiences.

Europe's businesses are pioneers in marketing industrial and consumer products and services in new ways and developing original business models. But creating the new Microsoft, Google or Facebook is not merely about identifying a market need and developing a product or service to fill it. Turning an idea into a global business requires an environment that spurs creativity and rewards entrepreneurship.

**What are the projects, initiatives or attributes that best contribute to develop cities' attractiveness and visibility to foreign investors?**




Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

European cities have the potential to harness these creative forces in their metropolitan areas and encourage them to interact and inspire each other. Promoting and cultivating the creative energy and originality of its multicultural citizens could not only stimulate innovation but also change investor perceptions. Transforming cities into hubs of innovation would allow Europe to put a face on its innovative institutions and creations, and offer investors hot spots to finance through venture funding.

The scale and pace of 21st-century urbanization is staggering, unprecedented and includes Europe. Large-scale investment will be needed in infrastructure and technology to enhance the livability and competitiveness of Europe's historic cities whilst preserving and building upon their traditional virtues. In the coming decades, new urban development will likely exceed the urban growth of the past two centuries. This will create opportunities in mobility, clean energy, water and healthcare in cities and urban areas across Europe.

Cities are the motors of countries and regions. If a region has attractive, livable cities, companies will have an easier time attracting employees and so be more willing to invest. But if the quality of life in a city is declining, and its infrastructure is under pressure, companies will have to pay a premium to attract employees and in the longer term, may pull out.

When investors were asked to list the key elements that attracted them to cities, they said that major urban infrastructure projects and innovative business parks provided the strongest appeal for investment. Europe has an enormous strength in its cities, which have established infrastructure, vibrant historic centers, increasingly multicultural populations and major international airports. It must recognize this, and capitalize upon it.

Viewpoint

# Restarting Europe's transport networks

**Gerald P. Leary**
*President FedEx Express Europe, Middle East, Indian Subcontinent and Africa (EMEA)*

"As the post-crisis hangover continues to abate and the global economy to shift and right itself, Europe is in a strong position to re-establish itself as the very lynchpin of global commerce. The European Union, with its 27 member states, accounts for 40% of global imports and is a key export destination for the world's major economies. Leading in terms of both importing and exporting, Europe is the critical cog in a well-oiled economic machine. For centuries, Europe's economic success story has been built on a culture of openness to new ideas, new trading opportunities and expansion into new territories. And so it will be again.

From its unique vantage point as a key facilitator of global trade, FedEx Express strongly believes that Europe's opportunities and growth will only accelerate as it invests in expanding its already excellent infrastructure – both physical and digital – and its transportation links.

Perhaps the greatest evidence of this kind of progress is the emergence of the airport city, or "aerotropolis," exemplified by some of Europe's key airport destinations including Charles de Gaulle in Paris, home to FedEx Express European hub, as well as Frankfurt international airport.

Europe's metropolitan business districts are competing in an increasingly fast-paced, networked economy, formed by a catalytic interaction of globalization, digitization, aviation and time-based competition. The combined thrust of these forces is creating a new economic geography, with major airports driving and shaping business location and urban development in the 21st century. The European aerotropolis will define the future of global production and air commerce linked businesses of all manner from around the world.

To take this idea one step forward, FedEx has been pioneering a new intermodal initiative designed to provide an alternate, more sustainable mode of transportation. The future of our continent will hinge on its ability to grow sustainably through the development of air/rail multimodality, while providing greater employment opportunities. By linking our European hub in Roissy-CDG to key economic centers across the continent through high-speed rail, it is our hope that, over time, we can help contribute to the competitiveness of European businesses.

Europe has a clear opportunity to lead; an opportunity to re-energize open trade in a dynamic global marketplace and an opportunity to regain its historic position at the center of the economic universe."

## 4. Europe should be: a global talent hub

Talent has now become a global commodity, fought over by a wide spread of global competitors. Europe's future attractiveness goes well beyond ensuring that business conditions are favorable.

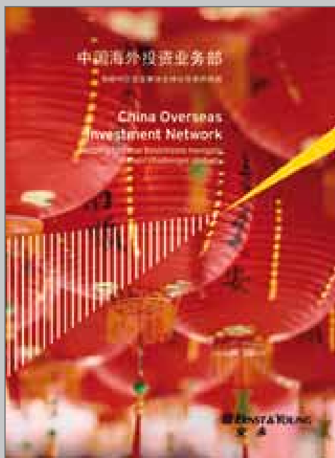
It must develop, retain and attract the talent base it will need to reach its strategic goals. Companies involved in the knowledge economy will seek potential through encouraging local entrepreneurship, leading-class researchers and high-level human resources with the right skills and attitudes.

The mismatch between the skills employers need and the available talent is growing. An estimated 31% of employers worldwide find it difficult to fill positions because of talent shortages in their markets.[19] Despite the growing ranks of college-educated workers and high unemployment in rapid-growth markets, companies find that educational systems do not produce, particularly in some hot FDI destinations, an adequate base of talent to meet their changing needs. Although educational access is growing worldwide, not enough students graduate with the skills and global perspectives needed by many of today's organizations.

Europe is very well positioned to seize this opportunity to be a talent leader. It has universal school systems and a high proportion of school-leavers who enter its well-developed web of universities and specialized colleges. Leading institutions are world class and attract students who often chose to work in Europe upon graduation. But weaker schools and colleges need to raise their standards, to ensure that in an increasingly global and mobile talent market, investors can find the skills and talent they need in both Western and Eastern Europe.

19. *2010 Talent Shortage Survey*, from Manpower.

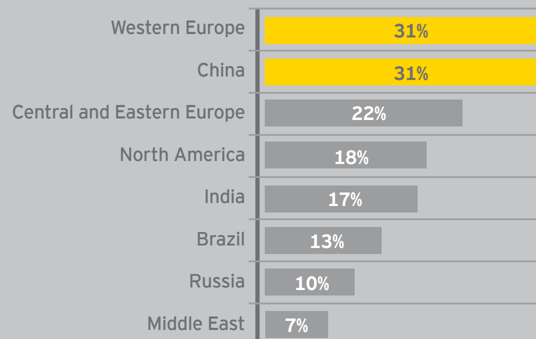
## Focus: Europe may be joint first with China in three years' time




*Ernst & Young's China Overseas Investment Network: Helping Chinese businesses navigate their challenges globally.*

Looking three years ahead, investors remain confident in Europe: Western Europe ranks joint first with China in attractiveness, while Central and Eastern Europe maintains third place. Its combination of prosperity, established industries, knowledge and skills remains an enticing mix and, although Europe is still overcoming fallout from the debt crisis, its leadership is taking decisions designed to restore economic stability through a combination of debt reduction and long-term growth.

**In the next three years, what is the most attractive country for expanding your company?**




Respondents gave two responses. Total respondents: 812.
Source: *Ernst & Young's 2011 European attractiveness survey.*

# Ernst & Young
# Building a borderless business

*Ernst & Young's Global review 2010.*

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. To ensure we are efficient and effective, we have organized our legal entities into similarly sized business units in terms of both people and revenues. These business units, almost all of which are purposely not single countries, are grouped into geographic Areas across the Americas, Europe and Asia Pacific. Each business unit's leadership team works directly with their Area and global leaders to facilitate flawless execution. This structure is streamlined — it allows us to make decisions quickly, and guarantees that we execute our strategy and provide high-quality service wherever in the world our clients do business.

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 organization means our clients get faster response and more tailored services. They get broader, more experienced teams, with deeper industry knowledge. Our people get greater opportunity to pursue the global careers they desire. And our regulators see our structure as helping us deliver consistent, high-quality service across the globe.

# Methodology

The Ernst & Young's 2011 European attractiveness survey is based on a twofold, original methodology that reflects:

- **The "real" attractiveness of Europe for foreign investors.** Our evaluation of the reality of FDI in Europe is based on Ernst & Young's European Investment Monitor (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.
- **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 Institut CSA in January and February 2011, via telephone interviews, based on a representative panel of 812 international decision makers.

## The real attractiveness of Europe

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. To map these real investments carried out in Europe, Ernst and Young created the Ernst & Young EIM in 1997. The EIM is a leading online information provider, tracking inward investment across Europe. This flagship business information tool from Ernst & Young 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, significant movements in jobs and industries, and business and investment.

The ***Ernst & Young's European Investment Monitor***, researched and powered by Oxford Intelligence, is a highly detailed source of information on cross-border investment projects and trends in Europe, dating back to 1997. 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 directly 70% of the companies undertaking the investment for direct 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, new jobs created)
- License agreements
- Retail and leisure facilities, hotels and real estate investments
- Utility facilities including telecommunications networks, airports, ports or other fixed infrastructure investments
- Extraction activities (ores, minerals or fuels)
- Portfolio investments (i.e., pensions, insurance and financial funds)
- Factory/production replacement investments (e.g., a new machine replacing an old one, but not creating any new employment)
- Not-for-profit organizations (e.g., charitable foundations, trade associations, governmental bodies)

## The perceived attractiveness of Europe and its competitors

n international panel of decision-makers of all origins, with clear views and experience of Europe:

- **52%** European businesses
- **30%** North American businesses
- **14%** Asian businesses
- **2%** Latin American businesses
- **2%** Middle East and Oceania businesses

Of the non-European companies, 52% have established operations in Europe. As a result, overall 690 of the 812 companies (85%) interviewed have a presence in Europe.

We built a global panel from all business models and sectors to further demonstrate a representative opinion on the diversity of international strategies:

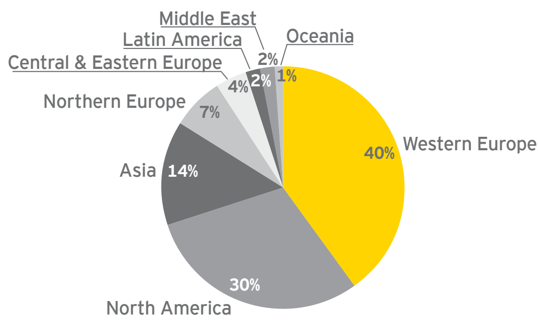
- SMEs (small and medium enterprises)
- Multinationals
- Industrial companies as well as service providers
- Companies from Brazil/Russia/India/China (BRIC) countries made up **11%**

Divided into five main sectors – the businesses surveyed are representative of the key European and global economic sectors:

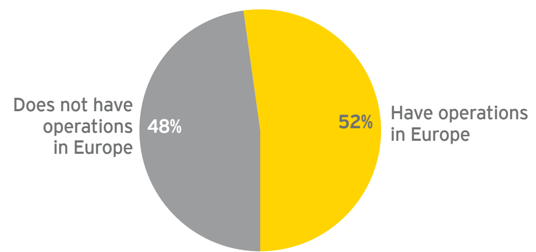
- Industry, automotive and energy
- Chemical and pharmaceutical industries
- Services
- Telecoms and hi-tech
- Consumer goods
- Real estate and construction

## Profile of companies surveyed

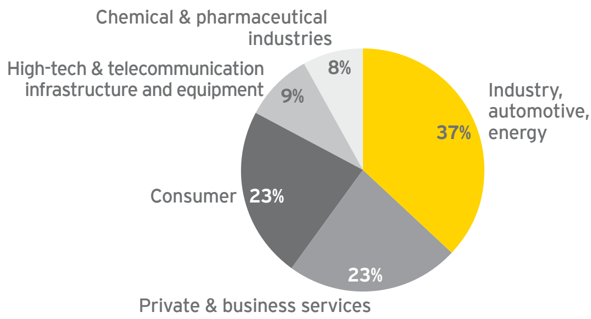
### Nationality of the interviewed companies



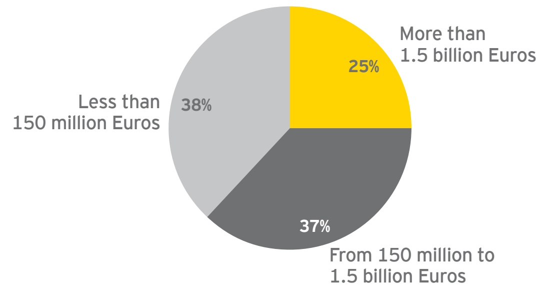

### Companies interviewed outside of Europe



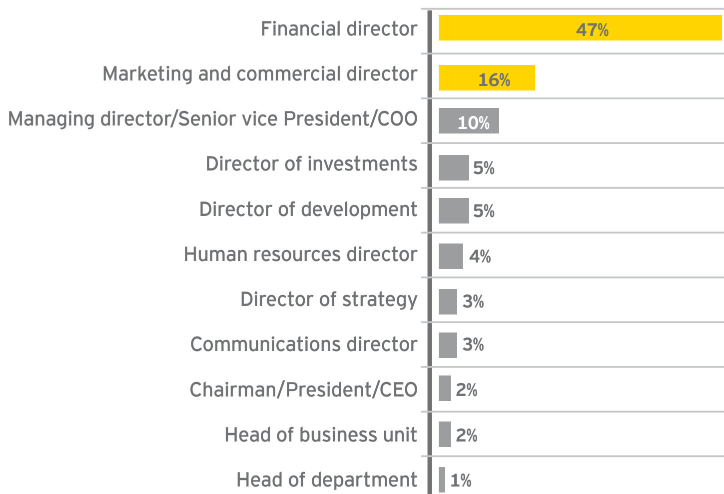

### Sector of activity of the interviewed companies




### Size of the company (sales turnover)




### Job title of the interviewees



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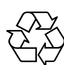

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