



How can Europe reset the investment agenda now to rebuild its future?

EY Attractiveness Survey

Europe

May 2020



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Building a better
working world

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We would like to extend our gratitude to ...

Guillaume Alvarez, Senior Vice President, EMEA, Steelcase Inc. and Chairman of the European Executive Council, **Doris Birkhofer**, Chief Executive Officer, Siemens Smart Infrastructure France & Belgium, **Pascal Cagni**, Ambassador for International Investments, France, **Caroline Jenner**, Chief Operating Officer, JA Worldwide, **Christophe Lecourtier**, CEO, Business France, **Fernando Medina**, Mayor of Lisbon, **Robert O'Sullivan**, Vice President of Finance, Kellogg's Europe.

Furthermore, we would like to thank the hundreds of business leaders and EY professionals who have taken the time to share their thoughts and insights with us about the possibilities that await us in Europe in the coming years.

By Europe, for Europe: foreign investment is key to the recovery

Foreign direct investment (FDI) rarely makes the headlines. Browse the business pages of leading publications and you'll see a range of news about M&A, infrastructure investment and IPOs. FDI is often an afterthought.

It shouldn't be like that. According to the European Commission, FDI totalled €7.2 billion during 2018 and it accounts for 45% of European Union (EU) Gross Domestic Product (GDP).

If that isn't enough, FDI turbocharges research. Foreign-owned firms account for a quarter of business research and development (R&D) in France, Germany and Spain; between 30% and 50% in Portugal, Sweden and the United Kingdom (UK); and more than 50% in Austria, Belgium, and Ireland.

It is therefore vital to understand what drives businesses to invest in particular countries and regions, and how their location priorities are changing.

In this spirit, EY teams have conducted extensive research on the level of FDI in Europe, and what drives it, every year for the last nineteen years.

This year, our usual research program was interrupted by the coronavirus (COVID-19). Like almost every aspect of life, the pandemic has disrupted, though by no means decimated, FDI.

To understand the impact of the virus, not just in 2020, but beyond, we changed our research approach. In this report, you will see anecdotal insights from some of the leading minds in EY

and business, as well as the results of a survey and modeling conducted after the full impact of COVID-19 became apparent.

The results are sobering, but certainly not discouraging. For example, 9 out of 10 surveyed businesses expect to decrease or delay investment plans this year, though 51% only plan to do so to a minor extent. The exact impact on investment levels will, of course, depend on the extent to which the global economy recovers and how FDI is incentivized at a local level.

But the fate of FDI in Europe will not just be governed by economic forces. FDI itself can also spark Europe's economic recovery and transformation.

For this to happen, European countries and institutions must grasp what it means to be an attractive FDI destination post-COVID-19. EY believes that COVID-19 will accelerate three pre-existing trends: technology adoption, sustainable practices and supply chain reorganization.

To remain attractive in this reframed business environment, Europe must think creatively, act decisively, and put cohesion and collaboration at the heart of everything it does.

We end this report by providing four guiding recommendations that we believe Europe must keep front of mind when planning its future.

We hope you enjoy reading this report. As ever, we welcome your feedback.



Julie Linn Teigland
EY EMEIA Area
Managing Partner



Hanne Jesca Bax
EY EMEIA Area
Managing Partner
Markets & Accounts



Marc Lhermitte
EY EMEIA Leader –
Geostrategic Business Group

Executive summary

1

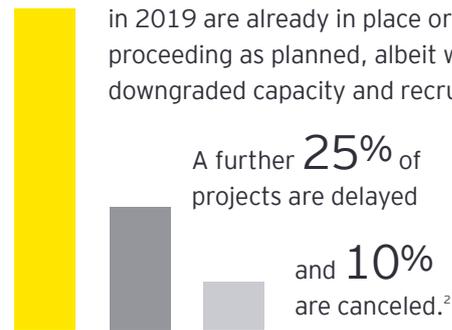
How was foreign investment in Europe performing when COVID-19 hit?

Before the outbreak, Europe had one of its strongest years ever in terms of FDI, attracting

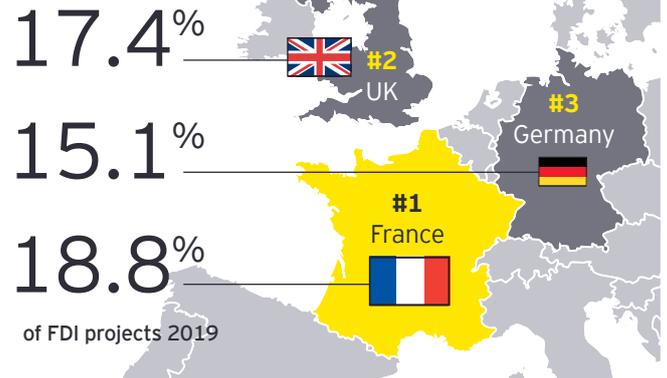
6,412
projects in 47 countries.¹

COVID-19 triggered a sharp decline in FDI, but not a complete cutback

65% of the 6,412 projects announced in 2019 are already in place or are proceeding as planned, albeit with downgraded capacity and recruitment.



France became Europe's top destination for FDI in 2019, attracting 1,197 new projects, a 17% annual increase. Despite Brexit uncertainty, FDI in the UK climbed 5%. Investment in Germany remained stable.



Cross-border investment from European companies within Europe accounted for



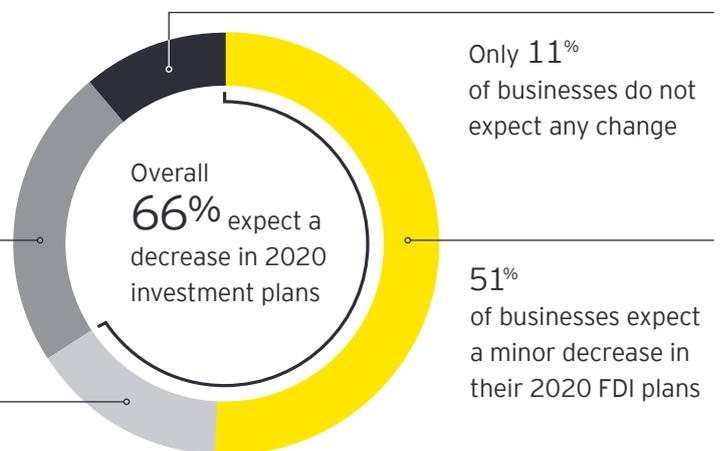
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How will COVID-19 impact new FDI in 2020 and beyond?

COVID-19 put the brakes on future FDI, but it did not stop it altogether

21% plan to completely delay new projects until 2021

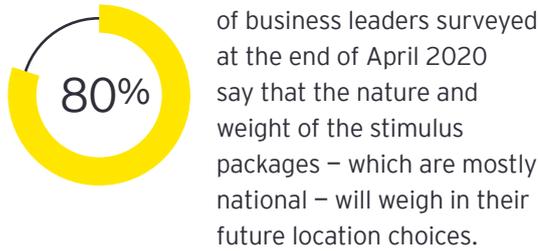
15% expect a substantial decrease



¹ EY European Investment Monitor (EIM) 2020, tracking FDI announcements in EU and non-EU European countries, Russia and Turkey since 1997.

² EY Flash Survey May 2020 (total respondents: 113).

The level of economic stimulus will also determine how swiftly FDI recovers:



Brexit



Although uncertainty remains, Brexit is no longer perceived to be a major threat to FDI in Europe. Just 24% of businesses identify Brexit as one of the top-three risks to Europe's attractiveness in the next three years, down from 38% last year.

3

A wake-up call: how can Europe retain its attractiveness?

Our survey data indicates that investment decisions in a post-COVID world will be driven by three megatrends:

- 1 | A reconfiguration of supply chains, with a new mix of reshoring, nearshoring and offshoring



- 2 | The acceleration of technology for customer access and cost reduction



- 3 | A sharper focus on climate change and sustainability in investment decisions



Europe is not guaranteed to thrive in this environment:



To rebuild its attractiveness, Europe must:

- 1 | Protect globalization, but ensure it works for Europe while also strengthening the European marketplace
- 2 | Invest in boosting its technology, health care and environmental industries
- 3 | Fund the "new normal" with a careful balance between public support and economic competitiveness
- 4 | Prepare for the next shock

1

Now

How was foreign investment in Europe performing when COVID-19 hit?

6,412 FDI projects

were announced in Europe in 2019.

0.9%

uptick from 2018.

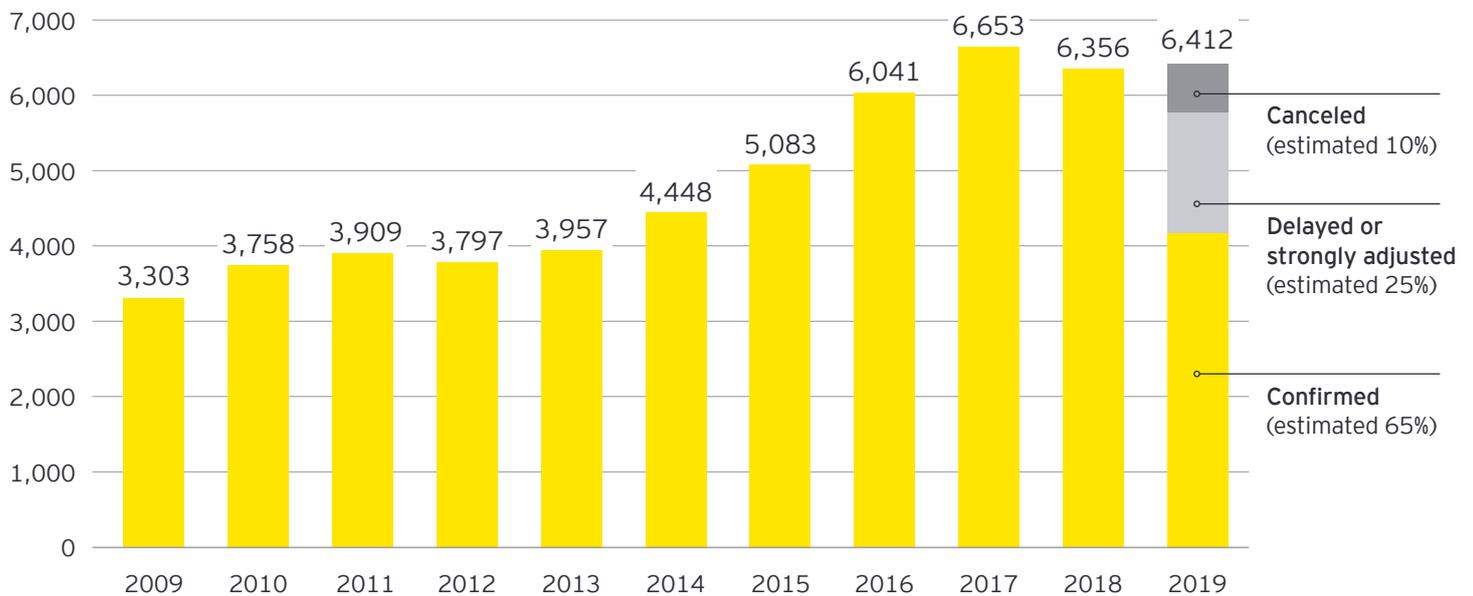
Foreign investment in Europe stabilized in 2019, but projects are in jeopardy

Today, 2019 seems like a distant memory; yet it's worth reflecting on the state of FDI before the pandemic hit. EY analysis reveals that 6,412 FDI projects were announced in Europe in last year, a 0.9% uptick from 2018. Investment was particularly strong in France and Spain, but global trade tensions, Brexit uncertainty (including genuine fears of a no-deal Brexit) and subdued economic growth caused investment across all of Europe to increase by only a modest amount. Measured by the number of announced

projects alone, 2019 was the second-strongest year for FDI ever, behind 2017.

Historically, only a marginal number of FDI projects announced in any particular year are not delivered. But COVID-19 interrupted project realization. EY analysis reveals that market uncertainty and, in some sectors, market decimation, will result in only 65% of projects announced in 2019 being delivered on time. A further 25% are delayed or strongly adjusted and 10% are canceled.

Figure 1: Number of foreign investment projects announced in Europe in 2019 before correction of the COVID-19 impact

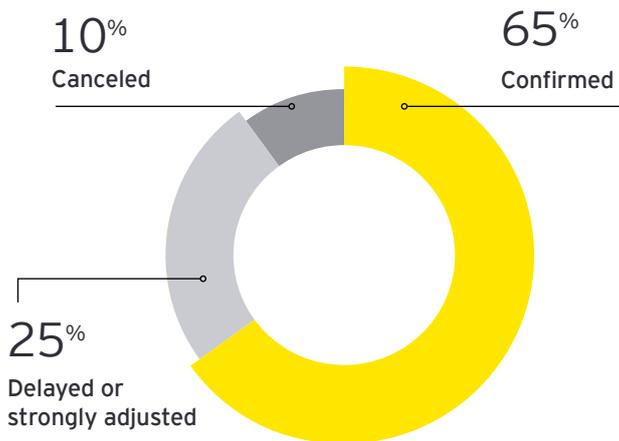


Source: EY European Investment Monitor (EIM) 2020.

Even the projects that are proceeding as planned may not meet their investment and employment targets. So, while 2019 looks strong on the surface, the reality is less optimistic.

The impact of COVID-19 on project realization is less severe in certain countries. In highly competitive, service-orientated countries, such as Ireland, Poland and Portugal, where a large proportion of FDI involves shared service centers, software development offices or R&D facilities, up to 80% of FDI projects will likely be maintained. This is significantly higher than the average 65% realization rate across Europe.

Figure 2: Estimate of the current state of FDI announced in 2019



Source: EY Flash Survey May 2020 (total respondents: 113).

Countries in focus: France overtakes the UK as Europe's top FDI destination

Investment in France rocketed 17% to 1,197 projects in 2019, with a 18.8% market share. For the first time, France attracted more FDI projects than any other country last year. France's resurgence, which has gathered pace since 2017, is a direct result of reforms of labor laws and corporate taxation, which were very well received by domestic and international investors alike.

Across the Channel, investment in the UK increased 5%, demonstrating resiliency to Brexit uncertainty. However, the country lost its top rank for the first time ever.

Other strong performing countries include Portugal (+114%), Spain (+55%) and the Netherlands (+11%). It remains to be seen how COVID-19 impacts the realization of FDI projects, particularly in Spain, where the domestic economy has been one of the more disrupted in Europe.

By contrast, FDI decreased in Ireland (-7%), Russia (-9%), Poland (-26%) and Turkey (-33%). Germany's stability, rather than growth, reflects the structural difficulty for new entrants to hire staff in crowded labor pools, and the fact that supply chains are already very well organized and integrated. This may, of course, change in the future and provide opportunities for new entrants. Decreases in Russia and Ireland follow very strong levels of investment in 2018.

Viewpoint

External viewpoint



Pascal Cagni
Ambassador for International Investments, France



Christophe Lecourtier
CEO
Business France

France and Germany must lead the way to restore Europe's attractiveness

A new European strategy to attract and retain foreign investment

The global economy is now facing the most serious health and economic crisis in recent decades. COVID-19 triggered a sharp decline in foreign investment flows and highlighted the need for companies to reorganize their supply chains.

The experience of the past few weeks – and the EU's long history – must encourage Europe to intensify its efforts, and Member States to work together.

France and Germany will lead the way. On 18 May 2020, President Emmanuel Macron and Chancellor Angela Merkel were very clear when they unveiled a Franco-German initiative to support Europe's economic recovery, ecological and digital transition, and industrial sovereignty. They insisted that 5G, "a Europe of health" and the green transformation of the continent must be prioritized, with strong support from all stakeholders, governments and businesses.

Berlin and Paris will have a common strategy of reducing their dependence on imports in strategic sectors, such as life sciences. However, this industrial autonomy cannot and will not, in any way, prohibit the growth of foreign businesses with strong industrial bases and R&D centers in Europe.

All these post-crisis priorities, and the associated funding that will be put in place represent an opportunity for new investments and jobs, starting with companies that are already present in the EU.

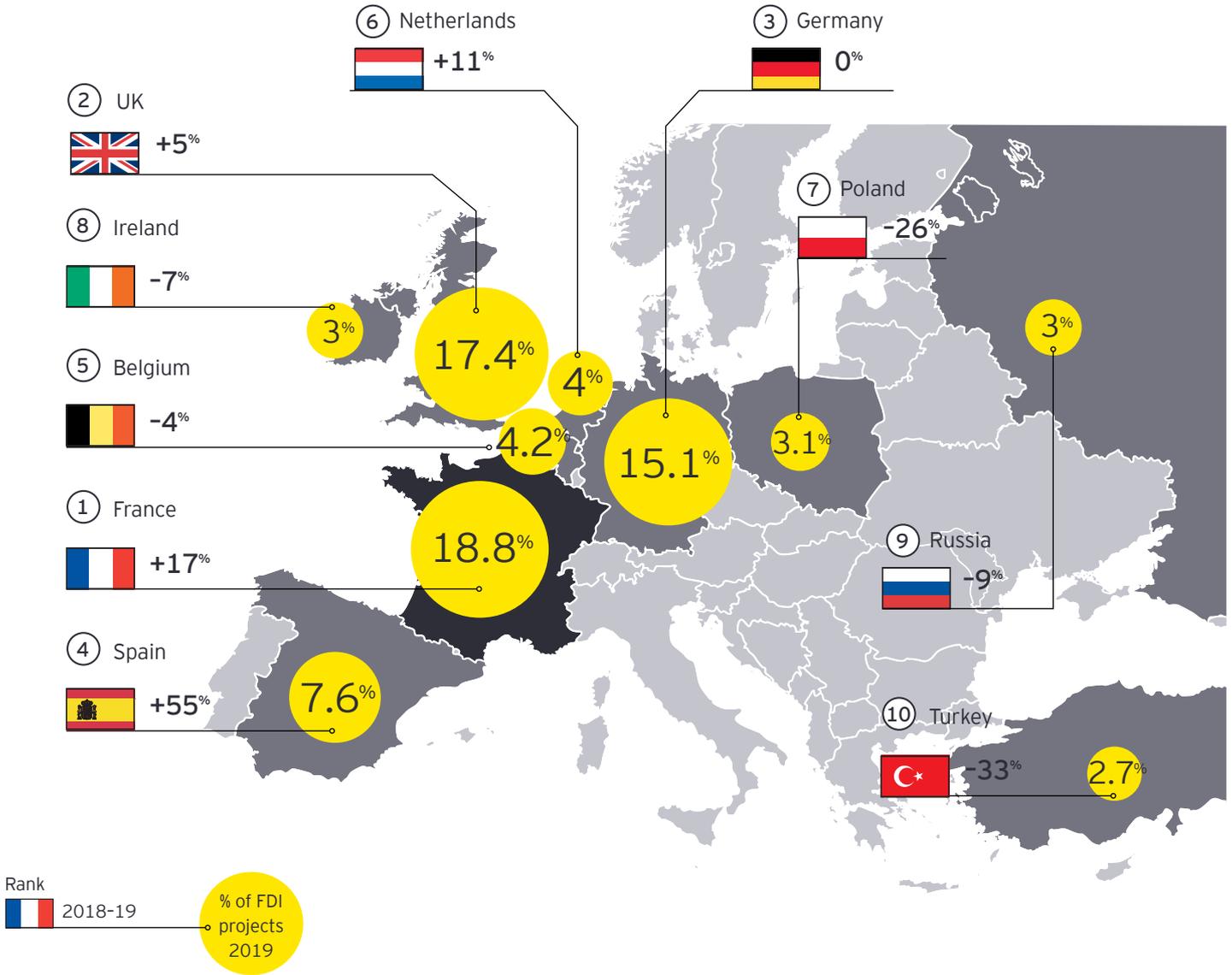
Cementing France's strong leadership in Europe

France's ambition for Europe compels us to add a new twist to our strategy and promote the country's attractiveness in a much more united and European way than we have in the past.

We hope to build on our recent strong performance and the rebound of France's attractiveness. In 2019, France became Europe's leading destination for foreign investment, according to *EY Europe Attractiveness Survey 2020*. It was no coincidence that France showed such impressive results, which were a direct result of several years of reforms of labor laws and corporate taxation, and the resilience of the French economy. This transformation of France's "business model" has been very well received by domestic and international investors alike.

Business France is willing to play an active role among European investment promotion agencies to continue to attract and relocate investments, which will be key to Europe's recovery and attractiveness.

Figure 3: Top 10 FDI countries in 2019 – share of project numbers and 2018-19 trend



Source: EY European Investment Monitor (EIM) 2020.

FDI surges in Europe's major cities

Although European FDI only increased by 0.9% last year, investment in major cities exploded. In Greater London, investment increased 17% due to its digital and business services leadership, while investment in the Paris region surged 34%. These two regions account for 8% and 6% of FDI across Europe respectively.

The strong industrial regions of Bavaria and North Rhine-Westphalia (NRW) had mixed fortunes.

Investment in NRW rocketed 44% and it is now the third-largest region for FDI in Europe, while investment in Bavaria dropped 24% and it is now ranked fourth. In both regions, the high proportion of manufacturing projects means more FDI projects announced in 2019 will be delayed or canceled, and those that proceed are more likely to do so with less job creation.



FDI dominant in digital and business services sectors

The digital and business services sectors attracted most FDI in 2019, collectively accounting for 31% of new projects and 24% of new jobs created. Anecdotal insight from local governments indicates that the vast majority of projects in these sectors had already been implemented before COVID-19 unfolded.

By contrast, projects in the transportation sector, including automotive and aeronautic manufacturers and suppliers,

which accounted for 7% of new projects and 23% of new jobs, are more at risk. Along with the industrial equipment, chemicals and plastics sector, our research shows that this industry has experienced the greatest supply chain disruption and revenue losses, leading to a greater proportion of projects being delayed or downsized than in other sectors.

Figure 4: Top 15 FDI sectors in 2019 – projects and job creation

Top 15 sectors	Number of FDI projects 2019	Market share (number of projects 2019)	Job creation 2019	Market share (number of jobs 2019)
Digital	1,219	19%	41,025	15%
Business services	774	12%	25,601	9%
Transportation manufacturers and suppliers	472	7%	64,460	23%
Machinery and equipment	535	8%	16,512	6%
Finance	367	6%	6,126	2%
Agri-food business	377	6%	11,392	4%
Transportation and logistics	414	6%	22,183	8%
Chemicals and plastics	283	4%	6,955	3%
Electronics and IT	274	4%	16,741	6%
Utility supply	130	2%	2,964	1%
Metals	108	2%	4,834	2%
Pharmaceuticals	164	3%	3,921	1%
Raw materials	153	2%	2,788	1%
Textile, clothing and leather	111	2%	9,027	3%
Research and scientific instruments	184	3%	6,249	2%
Other	847	13%	34,157	12%
Total	6,412	100%	274,935	100%

Source: EY European Investment Monitor (EIM) 2020.

2

Next

How might COVID-19 impact new foreign investment in 2020 and beyond?

66%

expect a decrease in 2020 investment plans.

73%

of businesses expect COVID-19 to have a severe impact on the global economy.

Investors ease off new projects, but don't fully retreat

At the time of writing, COVID-19 had put the brakes on future investment plans in Europe, though not halted them altogether. A survey of 113 businesses at the end of April 2020 revealed that 51% expect a minor decrease in 2020 FDI plans; 15% expect a substantial decrease; and 23% plan to delay new projects until 2021. Only 11% do not expect any change.

Investment intentions have understandably fallen because lockdowns make it practically impossible to evaluate and execute investment projects. The economic uncertainty caused by the outbreak also means companies are reconsidering whether manufacturing, research or support services projects are still financially viable. Indeed, 73% of businesses expect COVID-19 to have a severe impact on the global economy, according to EY Capital Confidence Barometer launched in March 2020.³

If optimistic predictions of a V-shaped recovery materialize, in which economic activity rebounds strongly in the second half of the year, FDI could recover sharply. By contrast, pessimistic predictions of a protracted depression would dampen it for the foreseeable future. EY macroeconomic



The shape of the economic policy responses and different structure of economies, recovery curve will vary depending on countries' ability to control infection rates within health care capacity and according to different levels of exposure to global value chains.

Dr. Marek Rozkrut, EY EMEA Co-Chair Economists Unit

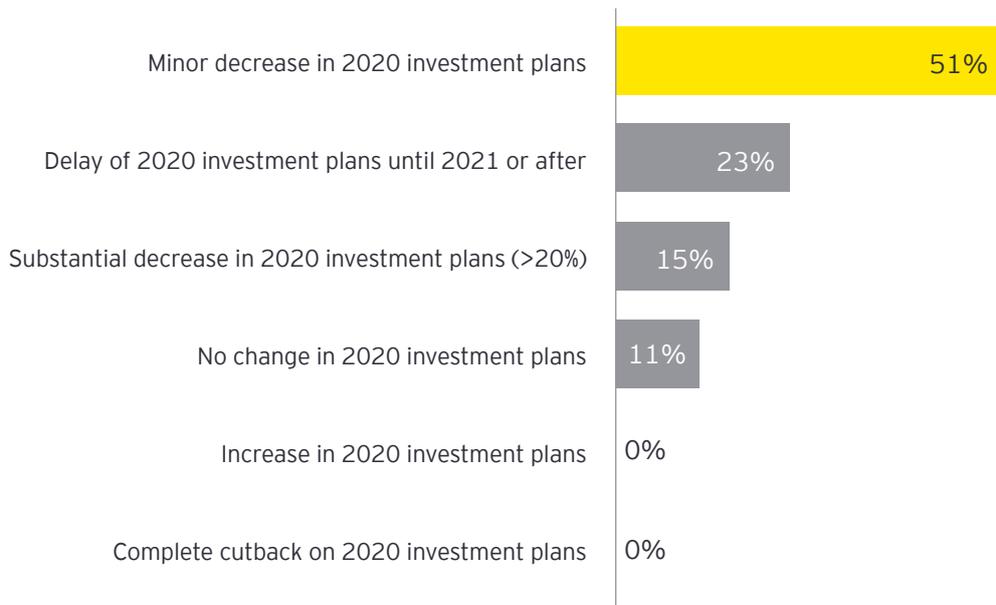
³ EY Global Capital Confidence Barometer, April 2020.

modeling suggests that an uneven saw-toothed slow recovery, marked by choppy, uneven growth, is most likely.⁴

FDI recovery rates are still difficult to predict because investment is also contingent on the rate of recovery in the regions from which FDI into Europe emanates, beginning with Europe itself. Indeed, a protracted European recession would significantly impact FDI, given that 52% of European investment came from European companies between 2015 and 2019. That said, some countries are especially reliant on the United States (US), such as Ireland, where 40% of the private sector depends on US companies.



Figure 5: To what extent have you changed your 2020 investment plans because of the COVID-19 outbreak?



Source: EY Flash Survey May 2020 (total respondents: 113).

⁴ COVID-19: Which critical choices should businesses make next? [ey.com](https://www.ey.com)

Viewpoint

EY
viewpoint

Dr. Marek Rozkrut
EY EMEA Co-Chair Economists Unit



Expect a slow, choppy, uneven recovery

An unprecedented shock

The combination of supply and demand shocks caused by COVID-19 and self-imposed containment policies has led to an economic crisis unlike any we have seen in our lifetimes. The global nature of the COVID-19 pandemic reinforces the shock through international interlinkages and global value chain disruptions. It is the first time since the Great Depression that we will witness recessions both in advanced and emerging market economies.

Due to its costs, a policy of nationwide lockdowns, which is leading to a decline in the level of output of 20%-25%, is unlikely to be sustainable. Assuming that there is no effective treatment or vaccine available soon, some social distancing measures will remain. Consequently, EY's economic scenario is that we will most likely see a slow "saw" shaped recovery marked by choppy, uneven growth. The exact patterns of these increases and setbacks will be heavily influenced by recurring epidemic outbreaks and the abilities of governments to contain and mitigate their effects.

The European Commission forecasts that EU GDP will contract by 7.4% in 2020, with hardly any European economies expected to get back to their pre-pandemic levels within the next two years. Faced with huge uncertainty, many firms will delay or cancel investment. We project FDI in Europe to contract by 35%-50% in 2020 compared with 2019.

Transition to the new normal

At the same time, transitioning to what comes next will place heavy demands on companies' ability to adapt and increase resilience to weather aftershocks. More attention will be paid to sustainability and climate change. COVID-19 has altered our relationship with digital – where digitalization was a "can" before the pandemic, it is now a "must." Companies will need to accelerate their moves to automate processes from manufacturing to the back office. Robotics will help optimize operations, reduce cost and increase speed. Increasing resilience may require restructuring and diversification of some supply chains. All of these will require structural change and investment, but technology investment in particular should accelerate.

Governments' response to the crisis, economic recovery and diminishing uncertainty will be driving forces of business investment. On the other hand, there is the threat of a move to protectionism. But strong multilateral cooperation, including avoiding trade restrictions, will be essential not only to overcome the effects of the pandemic, but also to address environmental and other challenges that the world faces.

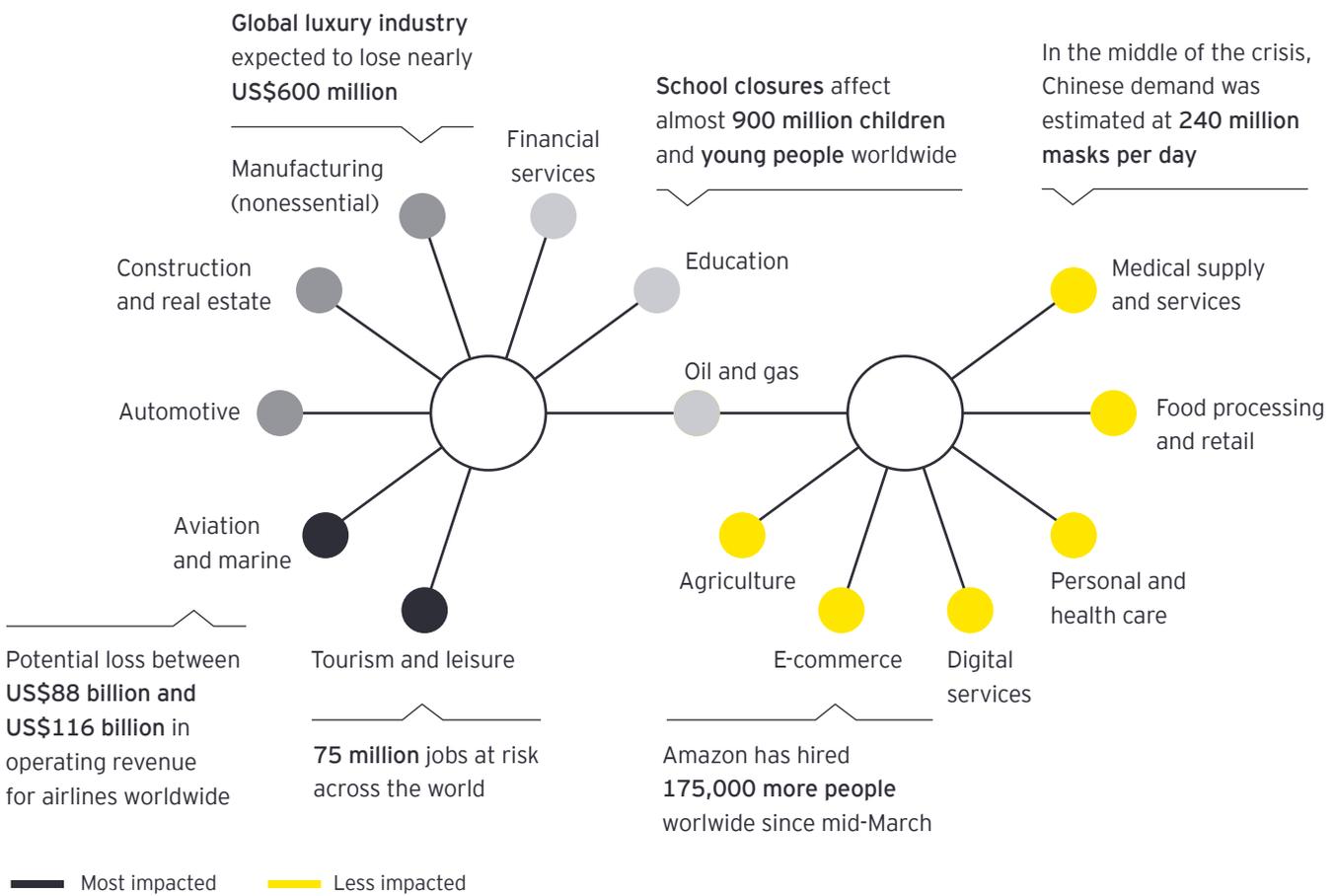
Robotics will help optimize operations, reduce cost and increase speed.

FDI is most at risk in sectors hit hardest by COVID-19

COVID-19's impact on market demand and the ability to execute operations varies significantly by sector. This has a direct knock-on effect on FDI. Indeed, companies in sectors experiencing a surge in demand due to COVID-19 (such as life sciences, essential consumer goods and

retail, e-commerce and online entertainment) will more likely maintain their investment plans. One prime example is in the life-sciences industry, when, in the middle of its COVID-19 outbreak, demand for masks in China was 240 million per day (see Figure 6).

Figure 6: Sectors' position in the fallout of COVID-19



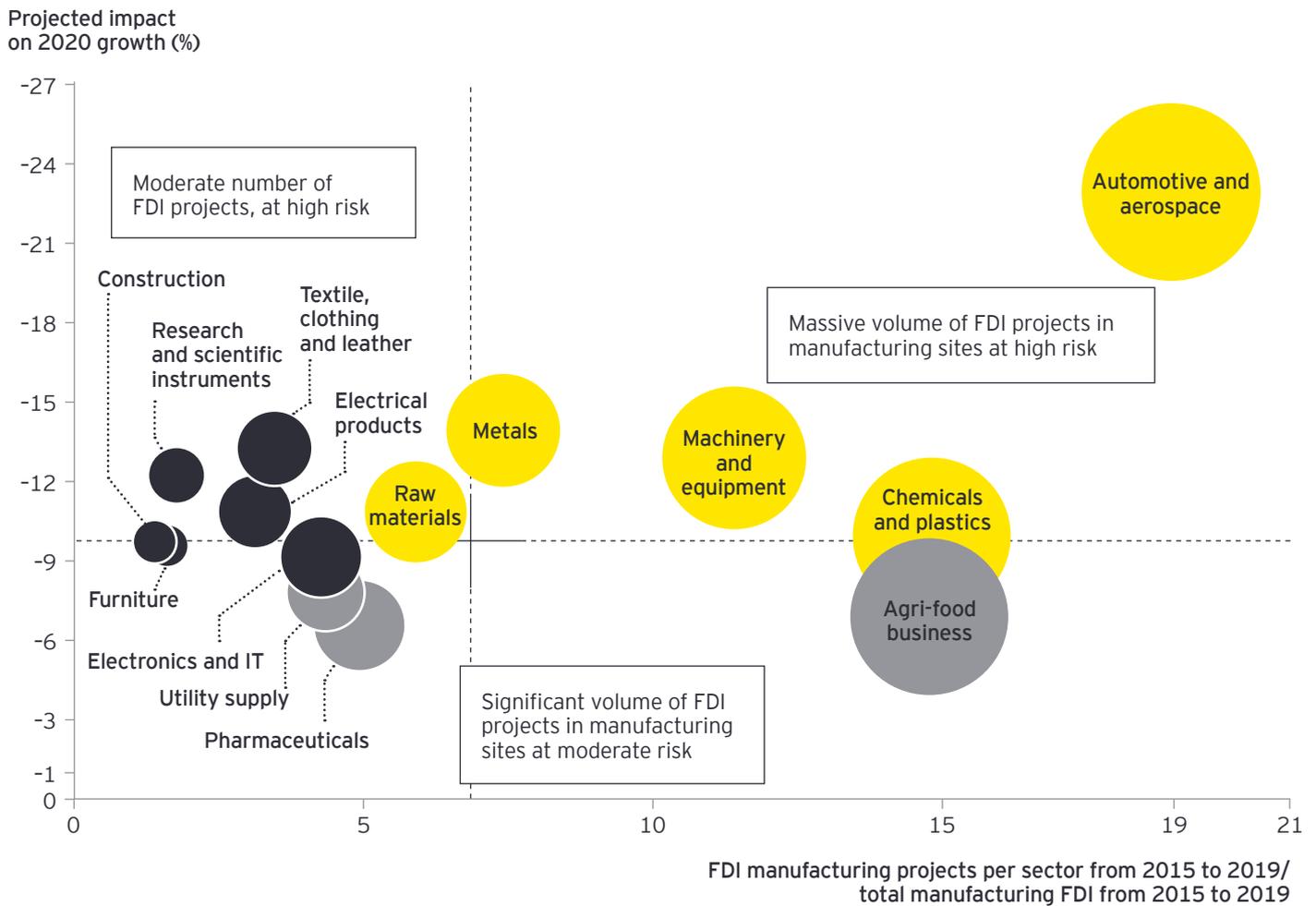
Source: EY, Dcode EFC analysis.

Next: How might COVID-19 impact new foreign investment in 2020 and beyond?

By contrast, a global survey of investment promotion agencies conducted by the World Bank revealed that supply chain disruptions are hitting production and revenues, resulting in capital expenditure and employment reductions in investment plans, particularly manufacturing investment in the transportation and textile industry.

With regard to manufacturing FDI projects, the transportation industry (including automotive and aeronautics), chemicals and plastics, machinery and industrial equipment, and agri-food sectors will all be hit very hard. By contrast, the pharmaceutical and medical equipment sectors appear resilient for now (see Figure 7).

Figure 7: Projected sector growth and risk to manufacturing FDI projects



Sources: EY European Investment Monitor 2020; Oxford Economics.
Note: circles are proportionate to the number of FDI projects in the period 2015-19.

Viewpoint

EY
viewpoint

Nigel Moden
EY EMEA FSO Banking & Capital
Markets Leader



Banking in focus: COVID-19 accelerates business transformation

Resilient banks, resilient customers

The European banking sector has responded proactively to the need for increased financial support to businesses of all shapes and sizes, as well as to individual consumers. This has taken the form of increased lending, both through the variety of government-backed stimulus schemes that have been launched across Europe and through existing product lines, and a range of forbearance measures, including mortgage payment holidays, interest-free overdrafts and preferential rates on credit card transactions.

The banking sector continues to be financially resilient and has thus far demonstrated that it has both the operational capacity and balance sheet strength to meet these increased demands. In this effort, they have been supported by European regulators, which have announced a range of measures designed to ease the burden on capital and enable banks to focus their energies on supporting their customers.

The agility demonstrated by our banks during the crisis will be an important retained asset as they respond to changing market dynamics.

From recovery to transformation

The experience of the past few weeks will encourage the sector to intensify its efforts to transform ways of working and customer engagement strategies, while accelerating the pace of automation and digitization. The agility demonstrated by our banks during the crisis will be an important retained asset as they respond to changing market dynamics.

The shape of the recovery is still very hard to predict, but the investment climate is likely to be subdued for some time. The banking sector is financially stronger than it was going into the 2008 financial crisis and will need to be, given the levels of bad debt provision already being reported. Banks will weather the storm, but need to take the opportunity to press ahead with their transformation agenda, while continuing to support the needs of their customers during these extraordinary times.

Viewpoint

EY
viewpoint

Pamela Spence
Life Sciences Industry Leader



Life sciences in focus: prepare for the data revolution

Clusters are an FDI asset

In the life sciences sector, future value equals innovation to the power of data. This means that you must unlock the power of data to fuel innovation, the success of which should be measured by the degree of levels of personalization and better health outcomes. COVID-19 has accelerated the need to do this, but it was already important.

To make this vision a reality, companies in this sector will have to partner and collaborate closely with nontraditional entities. Clusters such as Cambridge and Oxford in the UK have previously facilitated this. They create the serendipity that science has always relied on. Today, close proximity is, of course, not possible, but virtual collaboration is – and it is very much alive.

Companies themselves may decide that they need more localized supply chains.

In the future, I think clusters will still be very important and an asset to attracting foreign investment. Coming out of the COVID-19 crisis, governments should really think about what industries they want to excel in, then encourage businesses in those sectors to invest.

Regionalized supply chains build resiliency

Different countries' response to COVID-19 has also raised questions at the government level about what is needed within the country: for example, Germany had a strong, localized ability to test, while the UK is much more centralized and relies on supplies from overseas. Therefore, we may see some supply chains onshored at governments' request.

Companies themselves may decide that they need more localized supply chains. Rather than a global supply chain, I can see companies deciding to have separate supply chains for the Americas, Europe and Asia, for example, that are not interdependent.

In five years, we might look back at this time as one that really inspired scientific collaboration, perhaps not at a global level, but certainly between individual companies and countries. This is already happening to help find a vaccine and could be one of the positives that comes from this crisis.

National stimulus packages sway foreign investors, but cities and regions need a fresh approach

COVID-19 will likely reset investors' perceptions about which countries and cities are attractive. With scientists unsure whether a second wave of COVID-19 will materialize, businesses might start to favor FDI in European countries less affected by the first wave of COVID-19 (such as Germany), at the expense of the worst-affected countries (such as Spain, Italy and the UK).

The same applies to cities. The EY perception survey, conducted at the beginning of 2020 before COVID-19 hit Europe, reveals that businesses perceived the historic epicenters of European FDI – Paris, London and Berlin – as more attractive than a year earlier. By contrast, “challenger” cities such as Frankfurt, Amsterdam, Madrid and Munich declined in attractiveness.

80%

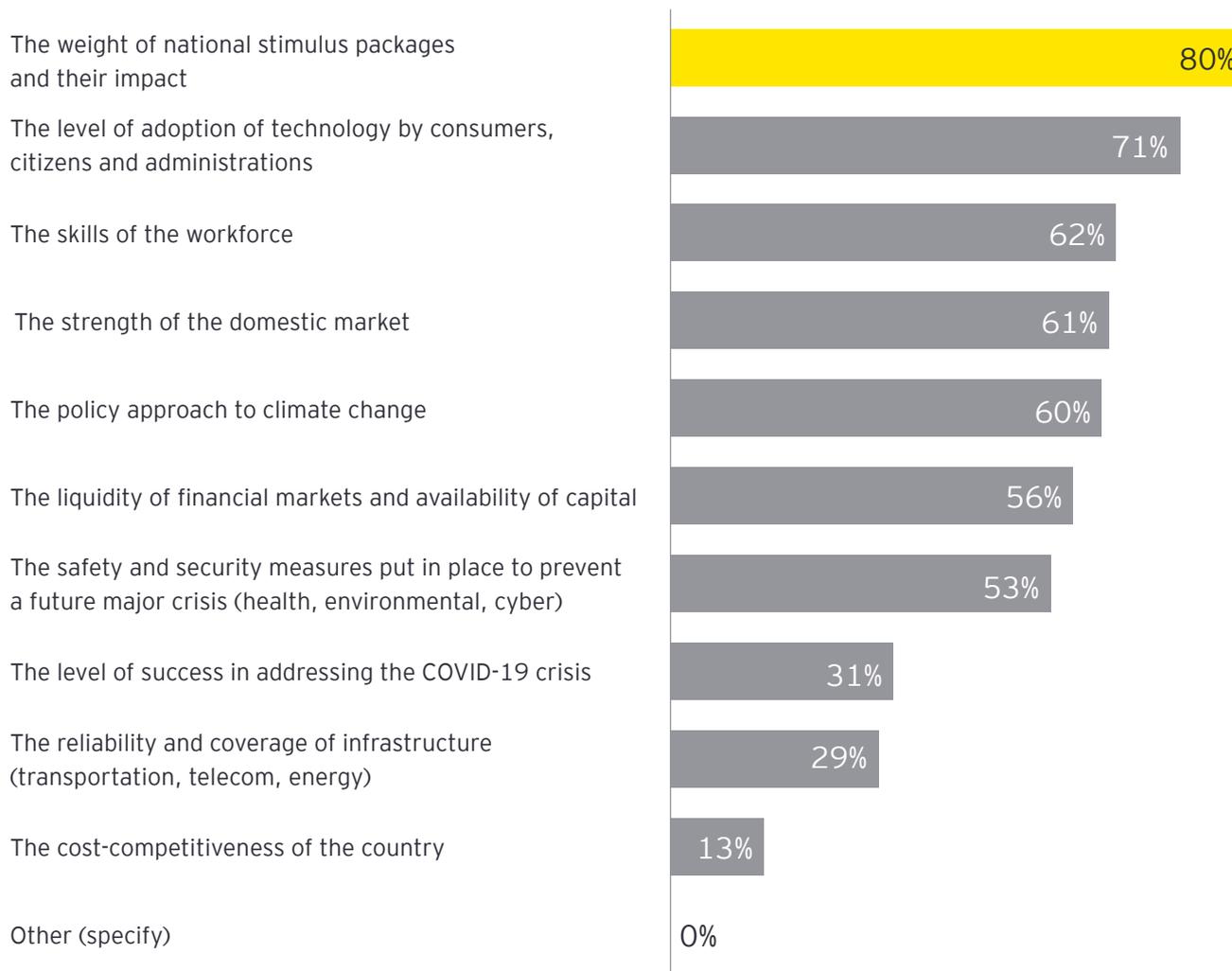
of business leaders surveyed at the end of April 2020 say that the nature and weight of the stimulus packages – mostly national – will influence their future location choices.

COVID-19 might reverse the fortunes of Europe's major cities such as London and Paris, with those that appear less resilient to pandemics potentially becoming less attractive in the future.

Leaving aside their specific vulnerability to COVID-19, the lockdown experience may accelerate a number of trends that result in major cities losing their economic muscle. Businesses may no longer consider it necessary to locate offices in dense cities if they allow greater numbers of staff to work from home, and citizens may be attracted away from cities due to concerns about future outbreaks and air pollution. At the same time, certain European countries, such as the UK, are actively trying to rebalance prosperity away from capital cities to smaller cities and regions.

Cities and countries of all sizes have an opportunity to shape their own attractiveness. Indeed, 80% of business leaders surveyed at the end of April 2020 say that the nature and weight of the stimulus packages – mostly national – will influence their future location choices (see Figure 8). Countries and cities can boost their attractiveness with targeted FDI support. Of course, unexpected but necessary spend on wage subsidies, tax deferrals, rate reductions and business interruption loans may leave little scope for it.

Figure 8: In your company's future location choices, what factors may influence the decision to select a particular country?



Source: EY Flash Survey May 2020 (total respondents: 113).

Viewpoint

EY
viewpoint

Mark Gregory
EY UK Chief Economist



Refreshing FDI policy for towns and small cities

Megacities may lose appeal

The belief that agglomeration, concentrating people into city centers, generates higher growth and faster innovation through greater connectivity has dominated economic development policy in recent years. But the COVID-19 crisis has shown that city-based growth comes with costs as well as benefits.

Sharp declines in air pollution and carbon emissions have laid bare the burden cities place on the environment. At the same time, people have begun to realize that their lifestyle could be very different without a daily commute, not to mention how much money they can save.

This is not to say that face-to-face human interaction has no value. It remains very important in sectors such as business services, finance, and advertising, but we can collaborate without being physically together every day. However, we have failed to challenge the assumption that all sectors are the same, when the reality is that work in other sectors can be distributed, thereby boosting growth and efficiency. In the UK, for example, two-thirds of all coding jobs are in the

Southeast of England. Now, it really doesn't seem that this has to be the case.

This doesn't mean that cities won't continue to grow. We should use the learnings from the current situation to initiate the rebalancing of economic activity from major capital cities to smaller cities, towns and rural areas.

Refreshing FDI strategies

The interesting question is therefore: how does your FDI policy need to adapt? Trade and investment agencies have historically focused on managing the big relationships with certain countries and companies.

Now, you need to start at the other end. You need to go to a town, understand what it's good at, consider future macro trends and narrow down your FDI search to find companies in the world that might want to invest in that town. Aggregate this up across similar places and the components for a more focused strategy for the whole country start to come together.

I'm not saying we should rip up the old way of doing things. But the rebalancing outside of major cities will require new thinking. What works for London will not work for a small town.



Viewpoint

External viewpoint

Fernando Medina
Mayor of Lisbon
Portugal



Cities will recover by meeting citizens' future needs

Europe's cities will bounce back

Like every global and interconnected city, Lisbon was strongly affected by the COVID-19 pandemic. Although the rate of contagion was controlled and the number of infected people was moderate compared with other countries, many services, namely in the tourism and hospitality sector, were forced to close during the lockdown. They now face a serious challenge to recover, even with the city's and government's support.

How can we respond? The tourism sector will have to turn its attention to the domestic market until the world regains confidence in international travel. The increase in unemployment demands a strong social response and accelerated reskilling to mitigate the already on-going impact of digitalization and automation, which was accelerated by COVID-19.

This new reality presents a new set of challenges and demands innovative policies and ideas, from both the public and private sector, with the EU assuming an important role. The recovery might take time, presenting a serious economic and social challenge in the short-term. But when the situation is contained, European cities will recover fast and strongly.

We see a strong opportunity to rethink the role of big cities and the quality of life of their inhabitants.

Future cities

How society adapts to the new reality and how fast companies adopt remote working will determine what cities look like in the future. We see a strong opportunity to rethink the role of big cities and the quality of life of their inhabitants. For example, the decrease in demand for office space and the number of people commuting to work allows us to rethink public transport and public spaces.

Cities must be able to meet citizens' future needs, which include quality of life, safety, social cohesion, tolerance, respect for personal rights and the infrastructure needed for the new digital and flexible workforce.

Lisbon will reinforce its commitment to a carbon-free future, with a more sustainable and green mobility system facilitated by a high level of investment in public transport. These investments will focus on reducing passenger density and easing the ability to walk within the city.

By doing this, the city will continue to attract investment and people to one of the oldest, yet most vibrant and dynamic capitals, of Europe.

Brexit is no longer the major threat to FDI, but uncertainty remains

Fears of a no-deal Brexit were put to bed following the decisive victory of the Conservative Party in the UK general election in December 2019. The subsequent implementation of the Withdrawal Agreement was supported by business leaders because it removed the immediate possibility of a no-deal Brexit. This is reflected in our survey data, with just 24% identifying Brexit as a top-three risk to Europe's attractiveness in the next three years, compared with 38% last year.

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Most observers believe there is simply not enough time to agree and ratify an all-encompassing free trade deal.

The EU and the UK wish to enter into a free trade agreement, but there are major disputes about the extent to which the UK will have to continue to abide by EU regulation. The pressure to reach agreement was ratcheted up after UK Prime Minister Boris Johnson stated in December 2019 that the transition period, which is currently due to end at the end of 2020 would not be extended; however, an extension now seems inevitable, given that COVID-19 has delayed the start of negotiations. Most observers believe there is simply not enough time to agree and ratify an all-encompassing free trade deal.

If a deal is not agreed in time and the transition is not extended, the UK and the EU will face trading on World Trade Organization (WTO) terms. However, a more realistic scenario is that a narrow trade deal covering goods will be agreed, but that discussions relating to services will be pushed back.

A comprehensive free trade deal would boost FDI in the UK and in its trading partners significantly; however, the 5% increase in UK FDI in 2019, when Brexit uncertainty was at its peak, indicates that the lack of a comprehensive free trade deal will not sever long-term investment prospects.

3

Beyond

What will drive foreign investment in the reframed business environment?

82%

expect technology adoption to accelerate in the next three years as a result of COVID-19.

57%

anticipate a renewed focus on sustainability and climate change in the next three years due to COVID-19.

COVID-19 will accelerate some megatrends in Europe, such as the fourth industrial revolution, protectionism, populism and the drive for sustainability. It may also reverse others, such as globalized supply chains. In this context, businesses will need to consider their FDI plans carefully. And with two-thirds of businesses expecting Europe to be less attractive post-COVID-19, its core institutions and business community will need to act decisively to remain attractive in the reframed landscape.

Our research in April 2020 shows that executives making location decisions expect **three megatrends** to drive their European investment plans in a post-COVID world:

1. The acceleration of technology for cost reduction and customer access
2. A sharper focus on climate change and sustainability in investment decisions
3. A reconfiguration of supply chains, with a new mix of reshoring, nearshoring and offshoring

Some businesses are aware of, or are waking up to, these challenges. But others are still rooted in old ways of thinking.

Technology investment is set to accelerate post-COVID-19

COVID-19 has altered consumers' and businesses' relationship with digital technologies in a matter of a few weeks.⁵ More than half of companies (55%) plan to enhance digital customer access, virtualize business-to-consumer interactions and engage in more e-commerce in the short term.⁶ In parallel, we expect companies to accelerate investment in more intelligent automation and robotization of manufacturing and transactional services such as IT, human resources and finance. In short, while digitalization was a "can" before the pandemic, it is now a "must."

Businesses clearly recognize this: 82% expect technology adoption to accelerate in the next three years as a result of COVID-19.

⁵ COVID-19: Which critical choices should businesses make next? [ey.com](https://www.ey.com).

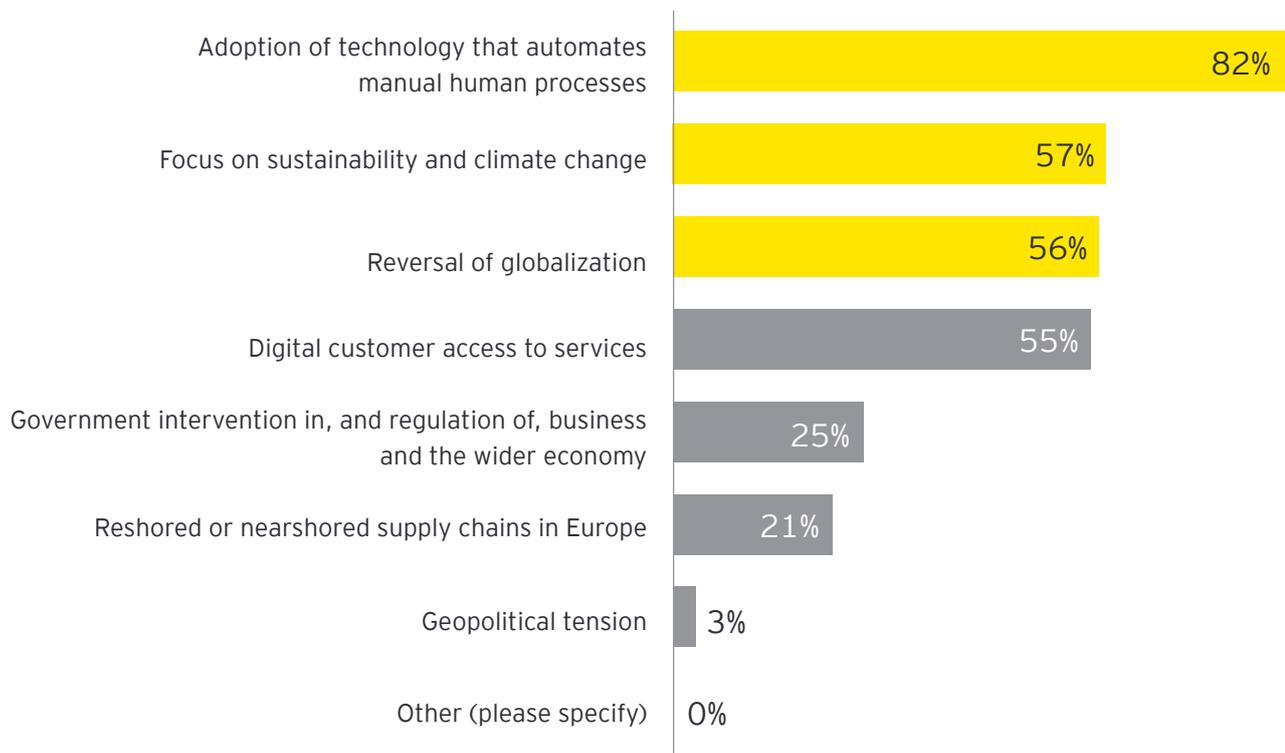
⁶ EY Flash Survey May 2020 (total respondents: 113).

Beyond: What will drive foreign investment in the reframed business environment?

Countries' digital competitiveness, including digital infrastructure, digital skills and a dynamic ecosystem of technology companies, has long determined their attractiveness. Before COVID-19, businesses ranked gaining global leadership in the digital revolution as the top priority for Europe in order to boost its attractiveness. In parallel, businesses ranked the availability of a workforce with technology skills as the most important factor to determine where they invest.

Accelerated technology adoption will make countries' digital competitiveness an even more important factor to drive investment decisions. In particular, governments must ensure fair access to fast internet and communications infrastructure in remote areas. This would help improve FDI attractiveness beyond major cities.

Figure 9: Which of the following trends do you expect to accelerate most in the next three years as a result of COVID-19?



Source: EY Flash Survey May 2020 (total respondents: 113).

Renewed sustainability agenda will reshape the way investment decisions are made

COVID-19 has enhanced citizens' and consumers' appreciation of, and demand for, sustainability. They enjoy the benefits of lower air pollution caused by the lockdowns. The closure of all but essential shops has forced frugality, which may endure. And awareness of income inequality has grown, especially in relation to frontline health care workers.

Therefore, citizens will increasingly demand that businesses address major societal challenges, such as climate change and income inequality. Moreover, governments may impose regulations that encourage businesses to drive this change. Most businesses recognize this: 57% anticipate a renewed focus on sustainability and climate change in the next three years due to COVID-19.

How will this impact FDI? Businesses that already have sustainability at the heart of their corporate agenda may find Europe more attractive from an FDI perspective if the continent's business, regulatory and societal climates reflect their own aspirations. On the flipside, there is a risk that overbearing regulation and uncompetitive taxes implemented to enhance sustainability may detract from Europe's attractiveness.



The economic recovery from the COVID-19 crisis has the potential to accelerate the transition to a sustainable future. And the push for sustainability also creates industrial opportunities. For the EU to become carbon neutral by 2050, state regulations need to be reformed, renewable energy must be integrated at all levels of the economy, and companies across different sectors must collaborate more closely.

Doris Birkhofer, CEO, Siemens Smart Infrastructure France & Belgium

Viewpoint

EY viewpoint

Bernhard Lorentz
EY GSA Managing Partner Markets,
and Head of EYCarbon – Navigating
the climate transformation



Decarbonize now: take the green path to recovery

Don't forget climate change

Governments have rightly launched large-scale stimulus programs to mitigate the economic and social effects of COVID-19, but there's a risk we will neglect another big crisis: climate change. There's significant merit in tackling both, but the right approach is needed.

Last December, before the onset of COVID-19, Ursula von der Leyen, President of the European Commission, presented a plan that set the course for a climate-neutral future and called for EU Member States to support a European Green Deal.

**By 2050 at the latest,
Europe's greenhouse gas
emissions are set to be
net zero.**

Sparking the recovery

The Green Deal is a plan to transform the bloc from a high-carbon to a decarbonized economy. It proposes a far-reaching set of actions, including investing in sustainable technologies and supporting industry to innovate. This aligns well with the agreement by EU heads of state that Europe should become the first climate-neutral continent. By 2050 at the latest, Europe's greenhouse gas emissions are set to be net zero.

To achieve this target, the plan calls for greenhouse gas emissions to be cut by at least 50%-55% by 2030 from 1990 levels, an increase on the current 40% reduction target. Despite COVID-19, this increase in ambition recently received support from the German Chancellor Angela Merkel.

If done well, Europe could become a global pioneer by establishing its own economic model and creating a powerful stimulus for innovation. If harnessed properly, the resources made available to overcome the current crisis can simultaneously catalyze climate neutrality, international competitiveness and high social standards across Europe. This is the opportunity inherent in the crisis. Now we must seize it.

Decarbonization is a major transformational force, changing today's market realities and dynamics. Companies are facing the challenge of strategic choice in an environment of high uncertainty. To navigate the challenges of decarbonization and seize the opportunities, EY teams have founded EYCarbon, which offers broad solutions for sustainability and decarbonization as part of a broader, long-term value discussion in the boardroom.

www.ey-carbon.de

Reconfigure supply chains for resilience and agility

The risk of future pandemics, increased geopolitical tension and climate change will reinforce the need for flexible and agile supply chains. Quite how this is implemented depends heavily on the needs of individual companies and the sectors in which they operate, but FDI will likely play a strong role in making supply chains future-fit.

Rather than a massive reshoring movement, 83% of the surveyed executives expect a regionalization of supply chains, with a rapprochement of certain production sites and their value chains at the borders of the EU and Africa (see Figure 10). In parallel, some onshoring of business-critical activities will happen and help create a more agile value network and restart production, while mitigating risk of disruptions in the future.

Location considerations aside, 61% of businesses expect to enhance agility by reducing their dependence on single-/dominant-source countries.

Technology will also be leveraged to improve supply chain resiliency. Almost 80% of businesses plan to transition to lean or additive manufacturing (e.g., 3D printing) to deliver advantages in speed, cost, precision and materials. Technology also has a role to play in keeping manufacturing facilities open by improving health and safety: for example, technologies will be deployed to track employee health, reduce human-to-human interactions and improve ventilation.



Flexibility has always been a business advantage, but it will now be critical to survival. Flexible employment contracts, owning versus buying in, diversifying site portfolio risk, flexing supply chains through shared resource models, ensuring flexible working capital needs — these are all critical to coping with sudden fluctuations in supply and demand.

Julie Linn Teigland, EY EMEIA Area Managing Partner

Viewpoint

External viewpoint

Robert O'Sullivan
Vice President of Finance
Kellogg's Europe

Juggling cost and resiliency: the post-COVID-19 supply chain imperative

Enter resiliency

In recent years, outside of people and food safety, which will always be the main priority, businesses such as ours have looked at their supply chains primarily through the lens of cost as an enabler to margin expansion. Post-COVID-19 there will be an additional lens front and center: resiliency. The challenge will be to find the right balance between the two. Those with a resilient supply chain have seen huge competitive advantage in the recent period of COVID-19, and I think this will continue in the longer term.

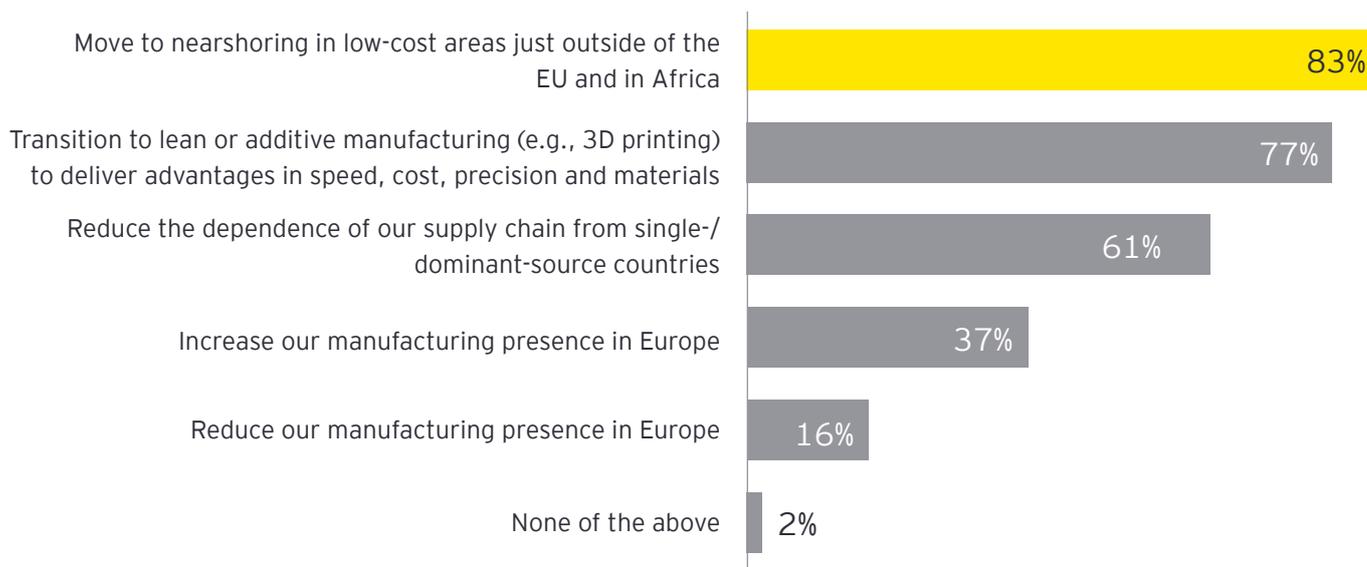
How can businesses ensure supply chain resiliency? Businesses in our sector will look at everything, but I don't expect any knee-jerk reactions. There may be

some relocations and nearshoring but, given that the main risk is security of supply, the immediate priority will be to change the KPIs when evaluating suppliers and doing everything possible to improve certainty. This could mean, for example, dual- or triple-sourcing to ensure security of supply.

Post-COVID-19 there will be an additional lens front and center: resiliency.



Figure 10: How will you change your supply chain model in response to COVID-19?



Source: EY Flash Survey May 2020 (total respondents: 113).

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This crisis highlights our vulnerability to external shocks. To build resilience, companies will seek to diversify their supply chains and locate production closer to their markets.

Doris Birkhofer, CEO, Siemens Smart Infrastructure France & Belgium

4

With Europe at a crossroad, how can it attract the investment or the investors that are critical to its recovery?

49%

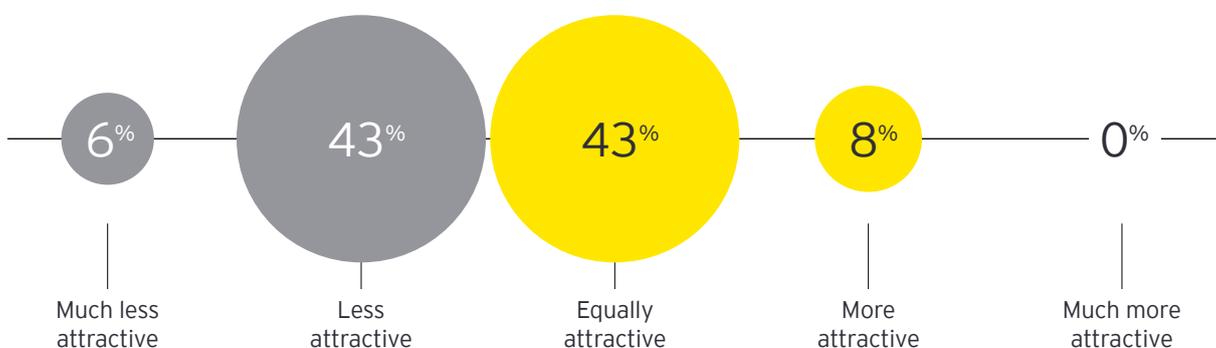
think that Europe is at risk of being less or much less attractive for investment in a post-COVID world.

37%

of surveyed businesses are considering increasing their manufacturing presence in Europe.

An alarming number of executives are pessimistic about Europe's prospects post-COVID-19: 49% think that Europe is at risk of being less or much less attractive for investment in a post-COVID world. Of course, all regions will likely be less attractive for cross-border investment, not just Europe; nonetheless, Europe must act decisively to retain its attractiveness.

Figure 11: Will Europe be considered more or less attractive for investment in a post-COVID world?



Source: EY Flash Survey May 2020 (total respondents: 113).

Here are four ways Europe can achieve this:

1. Protect globalization, starting within Europe

COVID-19 has accelerated existing anti-globalization trends. Many national governments, including those in France and Germany, have touted the need to develop domestic supplies of certain products. At the same time, barriers to acquisitions of key companies from foreign acquirers have been fortified. Perhaps reflecting this, 37% of surveyed businesses are considering increasing their manufacturing presence in Europe. It is unclear whether this trend will grow to include investment in multiple sectors or just in essential products, such as medical equipment. In parallel, major countries,

particularly the US, continue to repudiate key international institutions and treaties.

Against this backdrop, the EU has an opportunity to act as a strong voice for international collaboration and coordination, starting within its own borders. This spirit is required not only to build resilience to future shocks, but also to create an environment that attracts future investment, growth and prosperity for all.

EY analysis shows that investment projects from European companies into other European countries represented more than half (52%) of FDI in the past five years. This, we believe, is the foundation for Europe's recovery. Rebuilding confidence among and between European citizens, consumers, manufacturers and financial investors must be the first priority to restart the European engine.



“

Before COVID-19, globalization was being challenged by trade wars, the regionalization of trade agendas and consumer preferences to ‘buy local’ to reduce their environmental footprint and support local communities. This has been reinforced by COVID-19. In Europe, some countries have adopted a buy local stance to boost supply chain resilience, and have made it harder for some foreign companies to acquire certain businesses considered to be of strategic importance. In order to ensure its attractiveness going forward, Europe will need to think about its version of globalization and invest strategically, enabling its industries to be competitive globally, while also protecting its citizens.

Oliver Jones, EY Global Transactions Leader for the Government and Public Sector; and
Partner, Geostrategic Business Group

Viewpoint

External viewpoint

Guillaume Alvarez
Senior Vice President, EMEA, Steelcase,
and Chairman of the European
Executive Council



Europe's roadmap to future competitiveness

Decisive, yet uncoordinated

It may seem paradoxical, but Europe's response has been great, although with some complications. On the positive side, governments quickly supported business and employees, whether it be Germany's Kurzarbeit, which is the best across Europe, France's chômage technique or the UK's furlough scheme. In parallel, health care systems have been resilient, workers adaptable, and workers' councils collaborative and supportive.

On the other hand, there has been a lack of coordination across Europe, and working out what the rules were in different countries sapped a lot of energy. There may be close collaboration behind the scenes at the European level, but this hasn't been obvious to the public or businesses, which creates uncertainty.

Path to recovery

Europe now needs to turn its attention to supporting business and investment in the long term. As a starting point, it must revisit tax reform. Unfortunately, we expect that there will be a temptation to increase taxes somewhat, but there should be a way for us to keep cash in really productive investments. I would have said this before COVID-19, but there also needs to be greater harmonization across Europe. I don't expect the actual rates to be the same, but at least the guiding principles could be aligned.

Labor laws are also important. COVID-19 will result in some parts of business doing a lot better than others, so there needs to be greater flexibility to redeploy workers into growth industries and new jobs.

There also needs to be an ambitious policy to develop a technology sector in Europe. We lag behind other parts of the world for many reasons and don't have the same number of technology champions that other regions do. European competition law should be reformed to drive this. At present, it is too focused on ensuring competition within Europe, at the expense of ensuring European companies and European subsidiaries of foreign multinationals are competitive all over the world.

Then there's Brexit. We shouldn't be interested in who is to blame; instead, we have to be pragmatic and maintain free circulation of goods and people as far as possible. It would be a really positive signal if, during this crisis, we could pull together and do what's best for business and people by resolving this issue.

Finally, there needs to be a finalized European budget that accounts for the massive shock that we've just gone through and pays special attention to supporting mobility and sustainability.

This is the pathway to Europe's recovery.

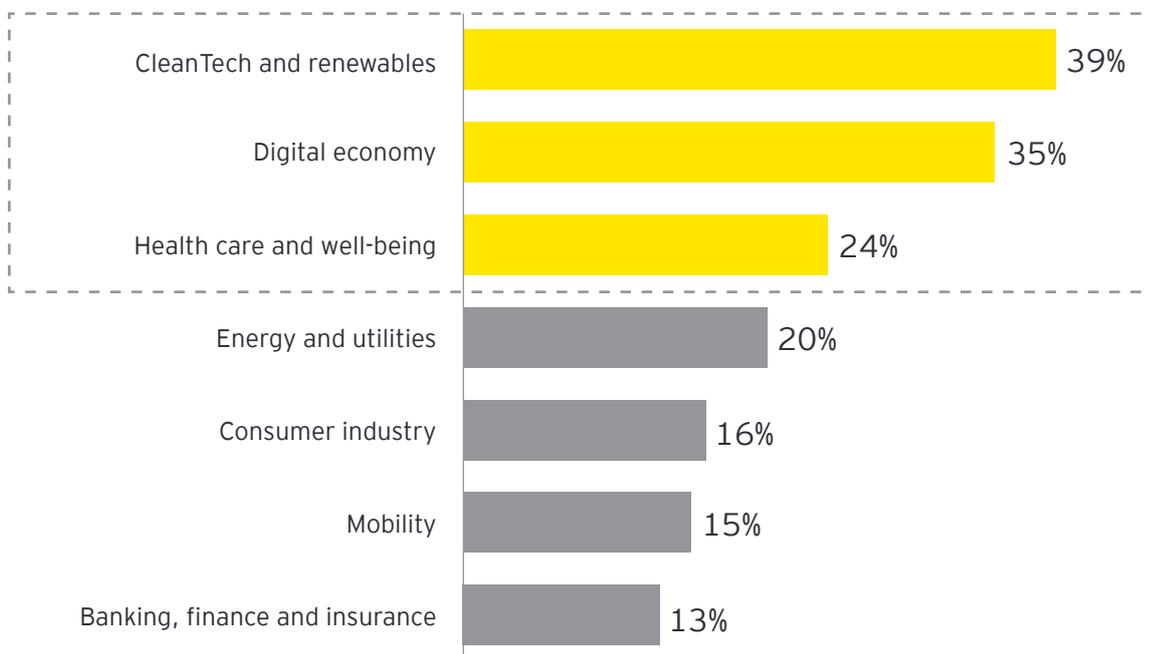
2. Invest in boosting technology, health care and environmental industries

The importance of Europe's technology and sustainability sectors in driving economic growth is not lost on survey participants. They rank CleanTech first in terms of its potential to drive economic growth across Europe in the coming years. The digital economy sector ranks second, and the health care and well-being sector third.

But continued investment in Europe's technology-intensive sectors is not guaranteed. The continent needs a robust digital infrastructure, with fast and reliable connectivity, to enhance its attractiveness. To protect the health of Europe's 500 million citizens, the EU will also need a significant plan to promote research for treatments and vaccines, and to work together with EU Member States to reinforce national health care systems.

To remain a priority destination for talent, entrepreneurs and global firms, European countries must adapt their education and training systems to equip people with the right skills for the labor market. These systems must harness the power of e-education, which demonstrate not only its value but also its vulnerabilities in the heart of the COVID-19 crisis.

Figure 12: Which business sectors will drive Europe's growth in the coming years?

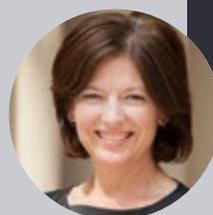


Source: EY Attractiveness Survey Europe May 2020 (total respondents: 504).

Viewpoint

External viewpoint

Caroline Jenner
COO
JA Worldwide



Educators must embrace digital or lose relevance

Online learning here to stay

The education sector was digitally transforming, but only at a modest pace. COVID-19 accelerated the shift to online learning platforms, and the education sector has achieved in two months what would have otherwise taken two years. Of course, we need to be careful that technology dependency does not entrench inequality.

When the pandemic recedes, I don't expect consumers to want to go back to the "old ways." Instead, they will want blended learning based on a combination of digital and human interaction. Educators will want to improve how they assess a learner's progress. This

means that those that provide online education will only thrive if they focus on quality, impact and real-world relevance.

Younger learners demand change

This will be driven by the younger generations, who are more tech savvy; they have already identified online alternatives to classroom teaching and are re-skilling themselves to remain relevant in the labor market in a post-COVID world. Competences such as entrepreneurship, so essential today, should be mainstreamed.

Companies should learn from this. Those that establish in-house digital training and development opportunities will be better positioned to attract and retain talent.

However the training is provided, meaningful partnerships are needed in the long term between government, business, civil society and local communities to create the education systems that will meet the needs of tomorrow's youth and business.

We need to be careful that technology dependency does not entrench inequality.



3. Fund the “new normal” with a careful balance between public support and economic competitiveness

EU Member States and the EU itself have provided significant funds to help businesses deal with the economic impact of COVID-19. However, funding is needed not only to weather the storm, but also to rebuild after it. Infrastructure investment will be needed to rejuvenate distressed regional economies, early stage financing will be needed to catapult new, entrepreneurial businesses, and multinationals will need capital to fund expansion.

This calls for new sources of public and private finance and a gradual reduction in the dependency on bank loans: for example, Europe has long looked with envy at the US's vibrant venture capital environment. At this time of change, perhaps now is the moment to create the conditions in which venture capital in Europe can thrive. In addition, some of the debt incurred by small and medium businesses could be turned into equity in the long term.

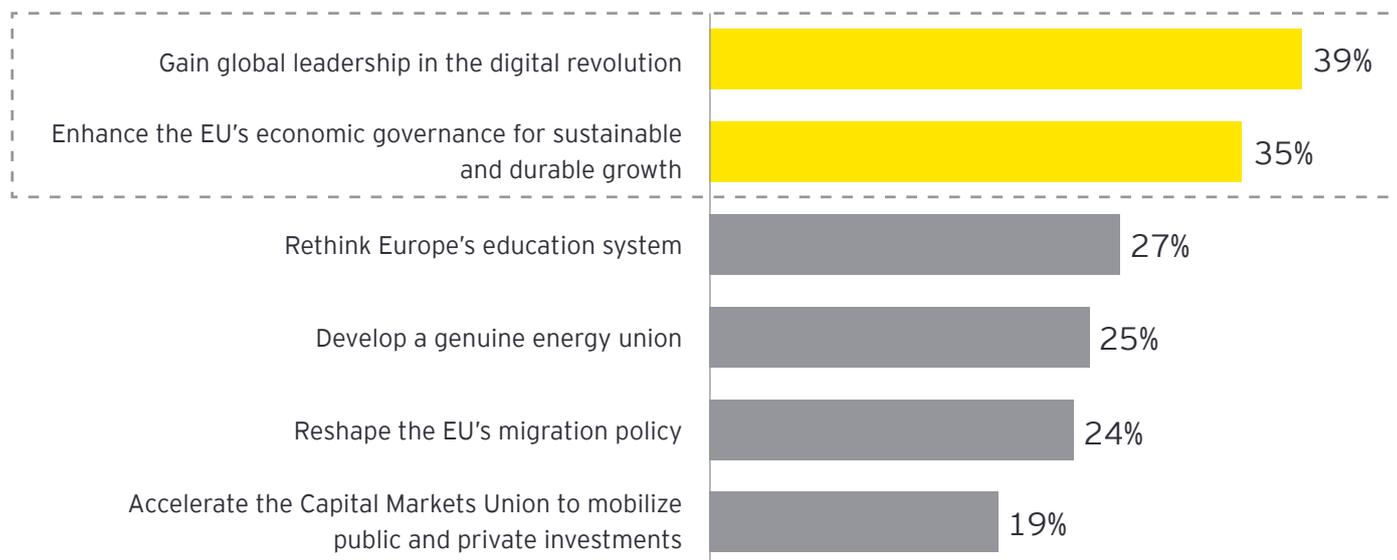
Where public finance is concerned, governments must strike a careful balance between increasing taxes in order to pay for the recovery and stimulus and ensuring European businesses are competitive with their Asian and US competitors. Take the example of Europe's technology sector: 39% of respondents see the Digital economy as the priority areas to make Europe a leader in the global economy. This sector must, of course, be taxed appropriately, but overbearing costs or regulation may deter future investment.

“

I don't sense that we will go back to the traditional model of constraining government borrowing and spending after COVID-19. I expect Europe will go to a Marshall Plan environment post the Second World War, where we seek to grow and inflate our way out of the debt trap.

Mark Gregory, EY UK Chief Economist

Figure 13: Where should the EU concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EY Attractiveness Survey Europe May 2020 (total respondents: 504).



4. Prepare for the next shock

In a post-COVID-19 world, being an attractive investment destination means being resilient and agile. Europe must therefore ensure it is prepared for future shocks, whether it be another pandemic, a mass cyber event or an environmental catastrophe.

Preparation must take place on a number of fronts. As a starting point, the advanced analytical power of Europe's academic and corporate sector must be harnessed and increased to predict, track and mitigate future crises more effectively.

The EU's key institutions must also ensure they are adequately prepared. Many of the institutions that bind

Europe together faced heavy criticism for their response to COVID-19. While organizations will need to learn vital lessons, calls to disband or dismantle these institutions must be resisted. FDI in Europe will only prosper with collective action and initiatives spearheaded by cohesive European institutions.

Finally, the COVID-19 pandemic has highlighted the economic vulnerability of certain segments of society and demonstrated that the vulnerability of some increases the vulnerability of all. Businesses and governments must therefore protect not only the most vulnerable sectors, but also the most at-risk people, including part-time, independent and gig workers.

“

What is the right balance between creating certainty and fair working conditions for employees and providing the flexibility that businesses and investors want from an FDI perspective? We don't have the right answer yet, but it's all about balance. We can't forget that people act rationally and may lose the incentive to acquire the skills that employers really want if all they see in the future is the precarious gig economy.

Sandeep Mishra, Business Development Director, EMEIA Markets, EY

Viewpoint

EY
viewpoint

Alessandro Cenderello
EY Managing Partner
for EU institutions



Rebuilding Europe's attractiveness requires decisive government action

Europe has been quick and effective

There are often complaints about excess regulation and government intervention in the market in Europe, but when a crisis like this hits, you realize the importance of resilient institutions.

The EU has learned the lessons of the 2008-12 financial crisis, and our institutions are more equipped. The Eurogroup took a decision on a €540 billion rescue package, accounting for about 3% of the EU's GDP. This includes unconditional ESM loans to governments to fight the direct and indirect consequences of the pandemic, the SURE unemployment reinsurance scheme and EIB guarantees for loans to business.

Earlier, the ECB launched the asset-buying program and the European Commission suspended the Stability and Growth Pact and some of the State aid rules. Furthermore, the EU Member States have launched national programs, which differ country to country.

Europe is also driving global efforts to respond to COVID-19. The European Commission's global initiative to raise €7.5 billion to develop a vaccine and treatments is a good example of how it is bringing organizations around the world together.

Intervention must be inclusive, transparent and innovative

Will heightened government intervention continue? It should, and it will. Some nationalizations are already happening across Europe, so governments will certainly be more actively engaged in businesses and the economy after COVID-19.

But the more important issue is how governments will ensure resiliency in the long term. Improving resiliency will not only protect businesses and people, but also make Europe competitive and attractive to foreign investors, which will be needed to accelerate the recovery.

The EUvsVirus hackathon that the European Commission orchestrated on 24-26 April is an incredible example of how thousands of citizens, businesses and administrators can collaborate to find solutions to address COVID-19. In the long term, active government intervention and facilitation will be needed to improve health care systems, promote sustainability and enhance education.

This will boost Europe's resilience, its attractiveness to foreign investors and, ultimately, its recovery.

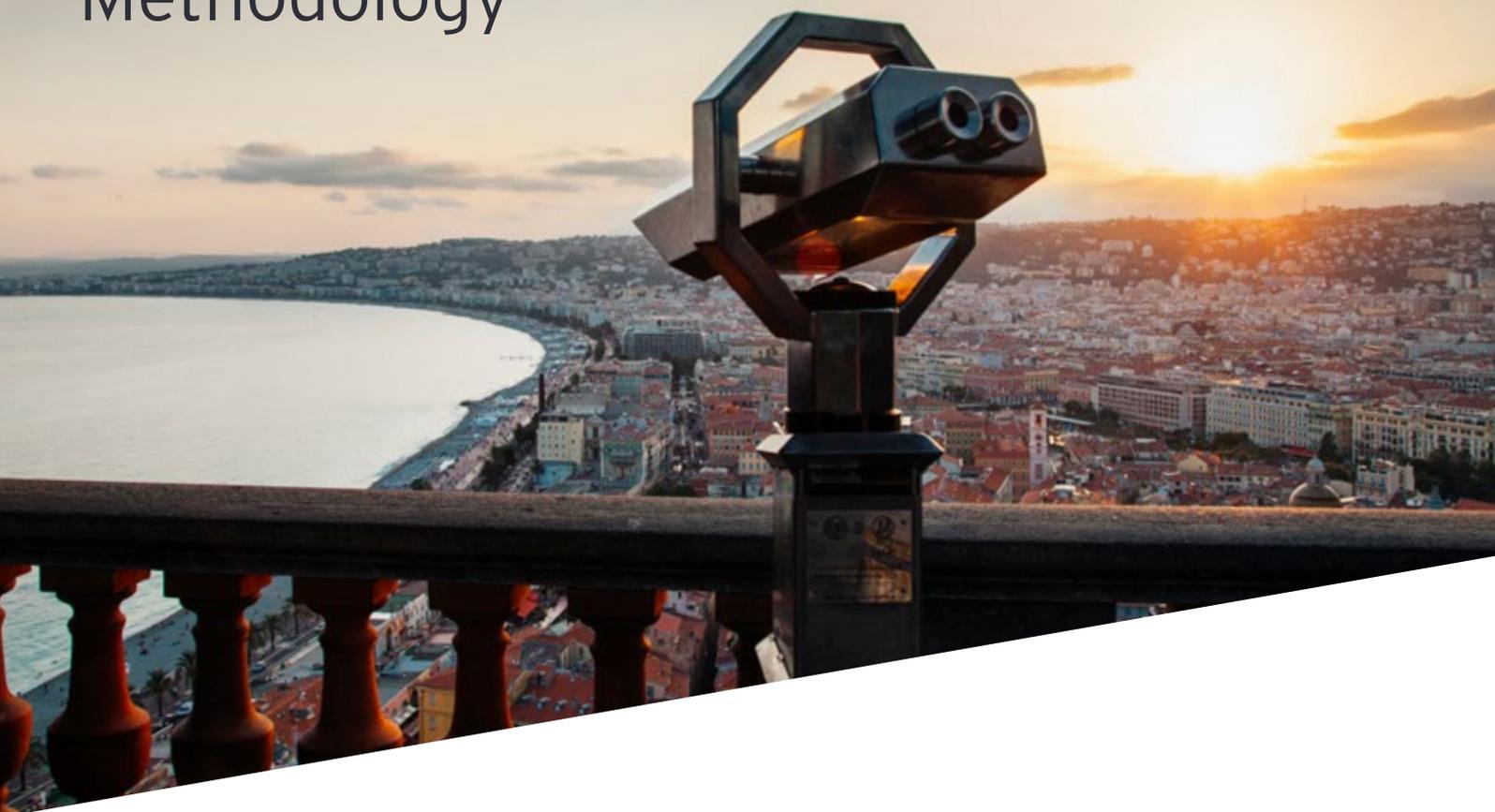
Appendix

Additional data

Rank	Country	Number of projects announced in 2019 (before 2020 revision)	Share of FDI % 2019
1	France	1,197 	18.8%
2	UK	1,109 	17%
3	Germany	971 	15%
4	Spain	486 	8%
5	Belgium	267 	4%
6	Netherlands	255 	4%
7	Poland	200 	3%
8	Ireland	191 	3%
9	Russia	191 	3%
10	Turkey	176 	3%
11	Portugal	158 	2%
12	Italy	108 	2%
13	Hungary	105 	2%
14	Serbia	103 	2%
15	Romania	78 	1%
16	Finland	75 	1%
17	Switzerland	73 	1%
18	Austria	69 	1%
19	Slovakia	65 	1%
20	Sweden	63 	1%
	Other	472 	7%
	Total	6,412	100%

Source: EY European Investment Monitor (EIM) 2020.

Methodology



The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

However, our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

- ▶ How FDI projects are undertaken
- ▶ What activities are invested in
- ▶ Where projects are located
- ▶ Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

To confirm the accuracy of the data collected, the research teams aims to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals and fuels)*
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

Additional sources

- ▶ *COVID-19: Which critical choices should businesses make next?* [ey.com](https://www.ey.com)
- ▶ *EY Capital Confidence Barometer, April 2020*, [ey.com](https://www.ey.com)
- ▶ EY – FDI Center of Excellence
- ▶ European Commission, OCO, Organization for Economic Co-operation and Development, World Bank, United Nations Conference on Trade and Development, McKinsey & Company, Financial Times, JLL

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's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2020 via telephone interviews, based on a representative panel of 504 international decision-makers.

A second perception survey was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.

Assessing the impact of COVID-19 on FDI in Europe

To estimate the share of FDI declared in 2019 that would remain secured in 2020 despite the COVID-19 crisis, we combined data from three sources:

- ▶ A modeling exercise to assess FDI vulnerability
- ▶ A Euromoney survey, based on 113 international decision-makers
- ▶ Webinars with 30 European investment promotion agencies to collect field data

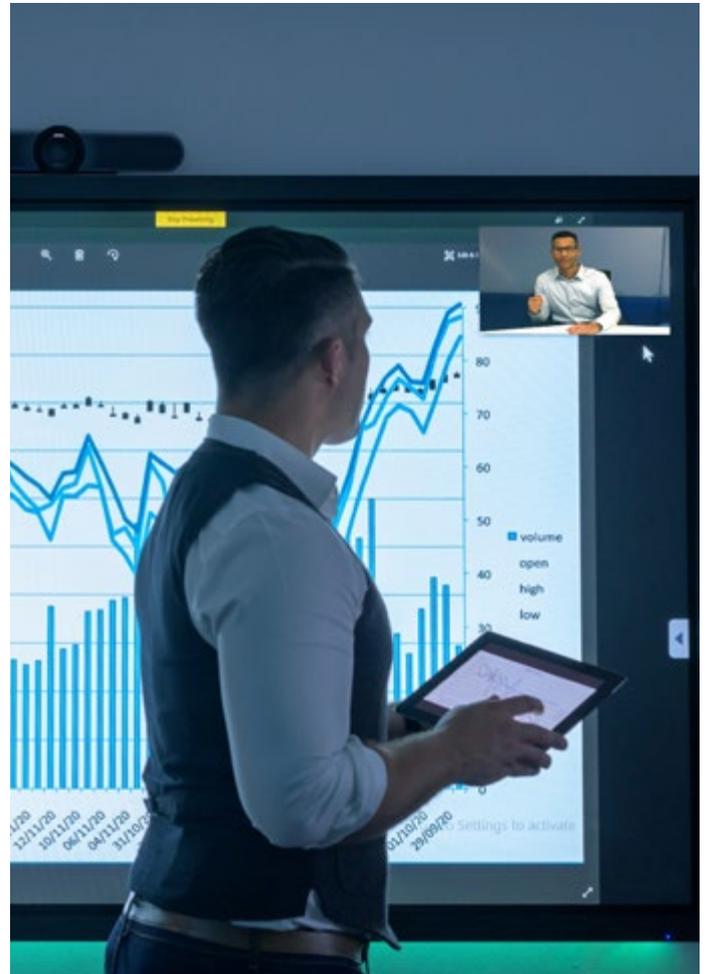
About the EY Attractiveness program

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

The program has a 19-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

ey.com/attractiveness #EYAttract



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EYG no. 003391-20Gbl

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EY contacts

Marc Lhermitte

EY EMEIA Leader – Geostrategic
Business Group
+33 1 46 93 72 76
marc.lhermitte@fr.ey.com

Suraj Mashru

EY Global Press Relations
+44 7876 843 352
suraj.mashru@uk.ey.com

Sarah Alspach

EY EMEIA Brand, Marketing &
Communications Lead
+44 20 7806 9706
salspach@uk.ey.com

Marie-Armelle Bénito

EY EMEIA Brand, Marketing &
Communication – Attractiveness
program Lead
+33 1 55 61 35 45
marie.armelle.benito@fr.ey.com

This survey was carried out by EY organization, under the direction and leadership of Marc Lhermitte with the participation of Sarah Alspach, Marie-Armelle Benito, Constantina Tseva, Graham Thompson, Mayank Chauhan from EY, and the support of Thomas Sturge of Longitude, Julie Gaillot, Anne-Laure Marchal and the teams of CSA Institute, Lawrence Bowden and Aura Popa of Euromoney.