

How can Europe attract next-generation inward investment?

EY Attractiveness Survey

Europe

June 2023



The better the question. The better the answer.
The better the world works.

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y'.

Building a better
working world

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Foreword



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The initial analysis of the results of the 22nd **EY Europe Attractiveness Survey**, published in May 2023, highlighted the extent to which foreign direct investment (FDI) in Europe was affected by the shocks that hit the continent in 2022. Growth in FDI activity stalled in the wake of the war in Ukraine, and the hoped-for post-pandemic rebound stumbled in the face of the unexpected economic disruption. The overall number of projects announced grew just 1% between 2021 and 2022, while the number of jobs created by FDI dropped by 16%.

Yet the survey also showed that a high number of companies plan to invest in Europe in 2023. In a volatile and fast-changing environment, businesses know that standing still is not an option.

What we see emerging today is a paradigm shift as investors' priorities evolve, the interests of communities and policymakers shift, and global competition intensifies. It is ushering in the next generation of FDI in Europe.

In every sector, in every market, businesses are seeking to sharpen their strategic and operational edge. This means making their supply chains more resilient; accelerating their ESG compliance and working toward net zero; rebuilding their value models around transformative digital technologies, including generative AI; developing their capacity for innovation; and striving to secure the skills needed to deliver their strategic objectives, among other challenges. Those concerns are layered on top of the enduring business imperatives to seek profitability and efficiency, preferably in a stable operating environment.

Today's investments require a new location logic – and while companies are rethinking how to select the optimal sites for investment, countries and communities are likewise rethinking their priorities. There is a growing emphasis on environmental and social goals, and on supporting regional development, alongside the fundamental considerations of job and wealth creation. Quality, not just quantity, is the new mantra for economic development.

This shift is taking place against a backdrop of renewed global competition for investment. Other territories have renewed their appeal to investors, including the US with its powerful Inflation Reduction Act (IRA) and high-growth economies around the world. Europe needs to be agile and adaptive to enhance its attractiveness relative to the competition and to secure the investments that will count in the years to come.

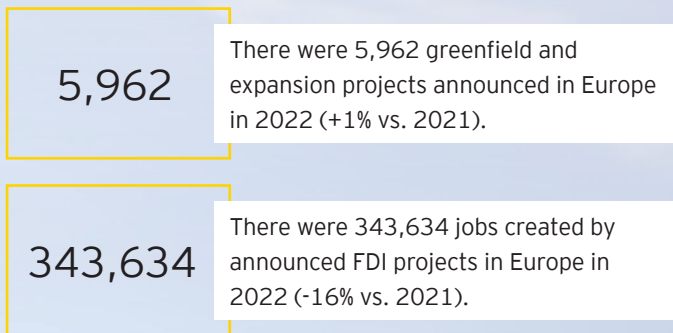
The question we ask is: Can Europe do this at both the general and local levels? Across Europe, a common focus is required to build a truly competitive environment, deliver on net-zero and digital transformation, help the value-creating businesses of tomorrow scale, deliver essential skills and support a stable, business-friendly tax and regulatory environment. Perfect alignment of the strategies of different countries or communities is impossible, so public actors must manage a delicate mix of competition and collective action to convince companies that Europe's diversity and complexity is a competitive advantage.

With the contribution of our experts, this second phase of the 2023 Europe Attractiveness Survey aims to identify the levers that will enable our continent and its territories, working with its industries, multinationals and innovative new entrants, to face the transformation that needs to happen over the next decade. We hope its findings spur a fresh conversation about foreign investment and Europe's future. As part of the EY commitment to building a better working world, EY professionals are dedicated to helping businesses, sectors and countries recover, transform and thrive. We firmly believe that foreign investment has a key role to play.

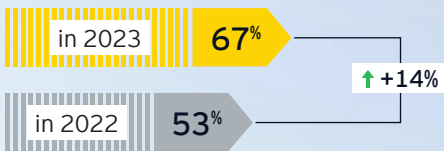
Executive summary

What is on the mind of foreign investors: The new location logic

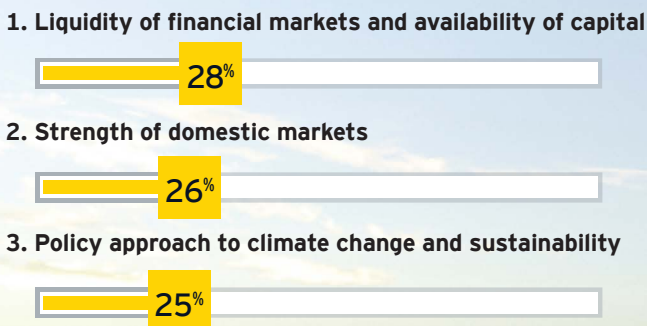
The macroeconomic environment impacted Europe's FDI growth in 2022:



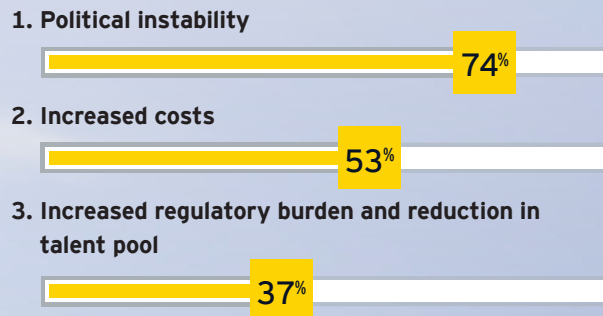
Most investors have plans to establish or expand operations in Europe in 2023:



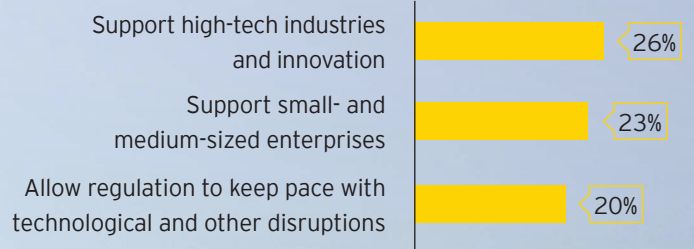
The top three priorities for investment in 2023 are:



Among investors that think Europe's attractiveness is threatened, the top risks are:



In order to maintain its competitive position in the global economy, Europe should concentrate its efforts on three main areas:



For more information

For further detail on FDI projects in Europe in 2022 and investor sentiment for the future, **read** our initial analysis.

What Europe can do to unlock next-generation FDI in Europe?

Even among executives who are optimistic about Europe's prospects as a destination for inward investment, the view is that policymakers need to actively work to prepare for next-generation FDI. We have identified six priorities that are particularly critical for foreign investors.

1 Refresh Europe's appeal as the natural home of next-generation businesses

Europe might face complex economic and social challenges, but businesses need to hear a clear, confident message. Investors will respond positively to a vision of Europe that underlines its economic resilience and the stability of its political and regulatory environment, while also committing to support rapid-growth sectors and engaging with the era-defining challenges of the digital and net-zero transitions.

2 Reinforce support for SMEs, which remain the vulnerable fabric of Europe's economy

One of Europe's biggest priorities in shaping a competitive environment fit for the future should be to boost support for SMEs and help them scale more effectively. SMEs employ about 100 million people across Europe and play a vital role in innovation. But far fewer SMEs than larger firms plan to expand in Europe in 2023 (57% compared with 79%), and they are also less optimistic about Europe's prospects in the next three years. A comprehensive view is required of all the elements needed for more European SMEs to make the leap to become potentially world-leading businesses, from the availability of growth capital to the impact of regulatory frameworks.

3 Simultaneously strengthen Europe's capabilities for developing technology and manufacturing in all sectors

The 2023 survey confirms R&D as the top category for potential investment in Europe over the next three years: 64% of executives expect to increase their European footprint in R&D over the next three years, but far fewer expect to increase their manufacturing footprint. Policymakers should develop a clear framework to encourage investment in the high-tech, high-value activities that are reshaping the global economy. This must include an ambition to put Europe at the forefront of the AI revolution by developing strong regulatory frameworks that allow business to reap its benefits while setting clear parameters around its use. The development of technology should not be the only focus, however. Europe should consider how to encourage investment throughout the value chain, particularly in manufacturing capability – especially in strategic industries where policymakers seek to reduce the region's external dependencies amid rising geopolitical tensions.

4 Make the most of Europe's leadership on climate change and accelerate on ESG

Policy on climate change and net zero is one of companies' top three considerations when they choose where to invest. The research suggests that investors recognize the advantages of Europe's leadership on net zero and ESG. Europe should seek to head off the competitive challenge of the US IRA through measures that will accelerate investment in green technology. The survey also highlights the importance to business of the rising share of renewables in Europe's energy mix. It is vital that Europe makes further progress, especially while rising geopolitical tensions continue to threaten energy supplies from outside Europe. The approach must join up with commitments on skills too.

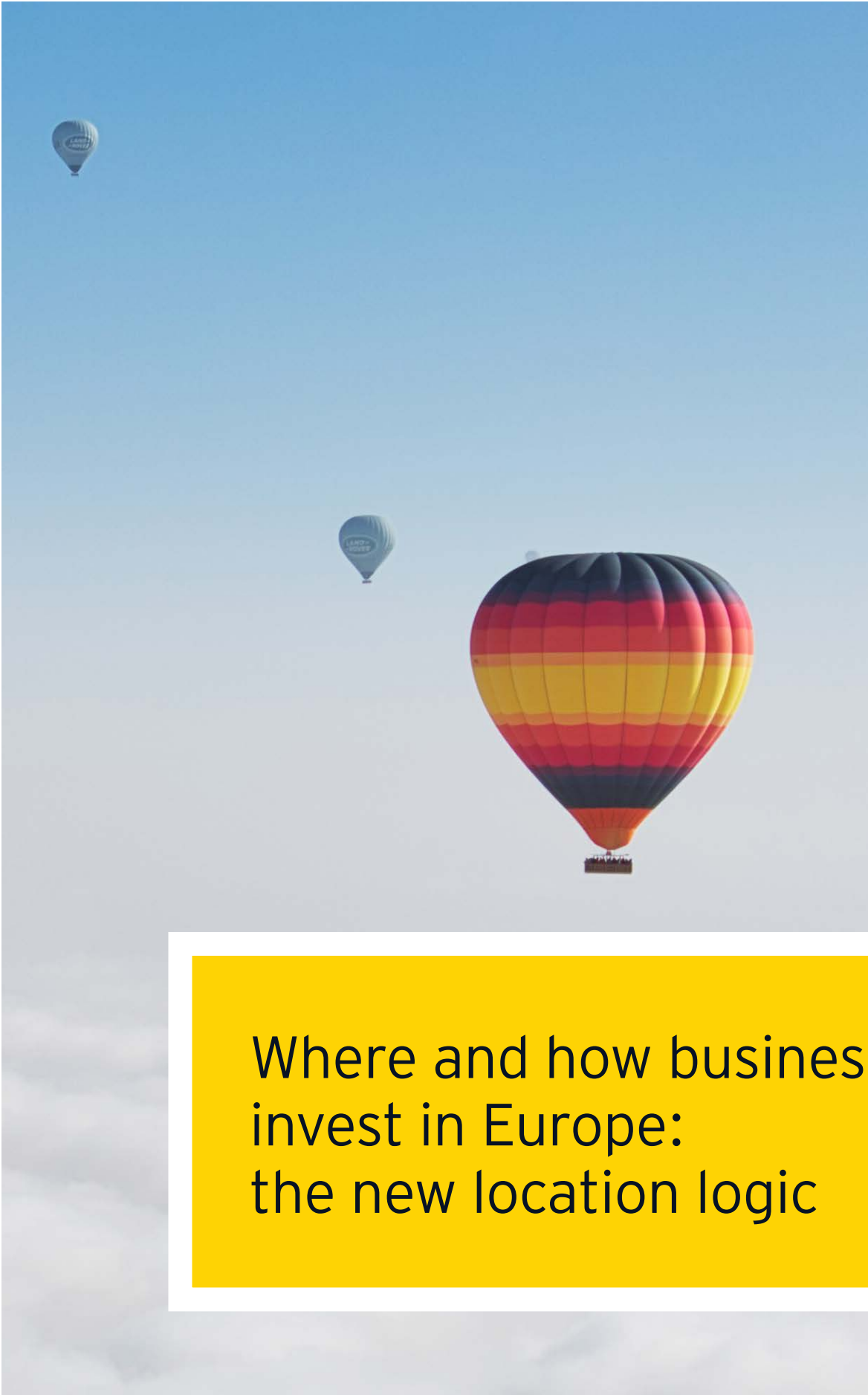
5 Develop next-generation talent and align skills with the vision of Europe's future

High employment levels in many European countries mean that businesses face intense competition for talent in most sectors. For instance, the *EU Solar Jobs Report 2022* estimates the solar workforce will need to double to more than one million by 2030¹. As jobs are disrupted by new technology, it will become increasingly important for policymakers, businesses and education to create opportunities for both young people and those already in work to develop the skills needed for next-generation businesses.

6 Build confidence with a modernized tax and regulatory regime

Investors' top priority on taxation is the provision of R&D tax credits, which could be key for accelerating progress toward Europe's green goals, and businesses want tax rules to be as predictable as possible. While business is a tempting target for politicians looking to increase tax yields, maintaining a stable tax environment has a huge impact on confidence. Clarity and predictability are also important for broader regulatory frameworks. Even where policy is still emerging – for example, around the digital economy – policymakers can promote confidence by giving clear signals about their intentions and take initiatives to strengthen internal markets. These might include moves toward a capital markets union or strengthening aspects of the single market, such as services and infrastructure, to maximize the benefits of a resilient, continent-wide market in a volatile world.

¹ *EU Solar Jobs Report 2022*, Solar Power Europe, 2022.



1

Where and how businesses
invest in Europe:
the new location logic

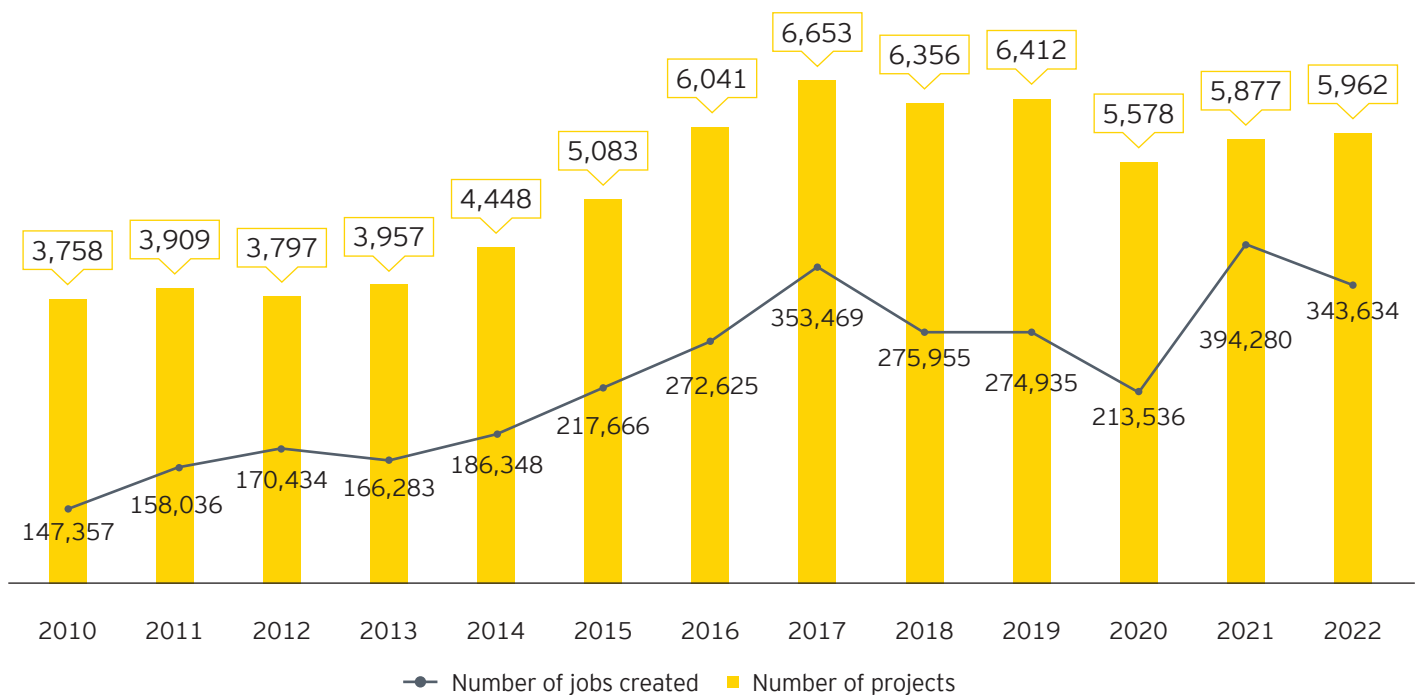
FDI in Europe in 2022 in summary

Growth in FDI projects in Europe plateaued during 2022, with a year-on-year increase of just 1% – compared with 5% growth the year before – while the number of jobs created by FDI dropped by 16%.

The number of announced projects remains 7% lower than in 2019, immediately before the pandemic, and 10% below the peak of 2017.

Figure 1

Number of FDI projects announced and jobs created in Europe between 2010 and 2022



Source: EY European Investment Monitor 2023.

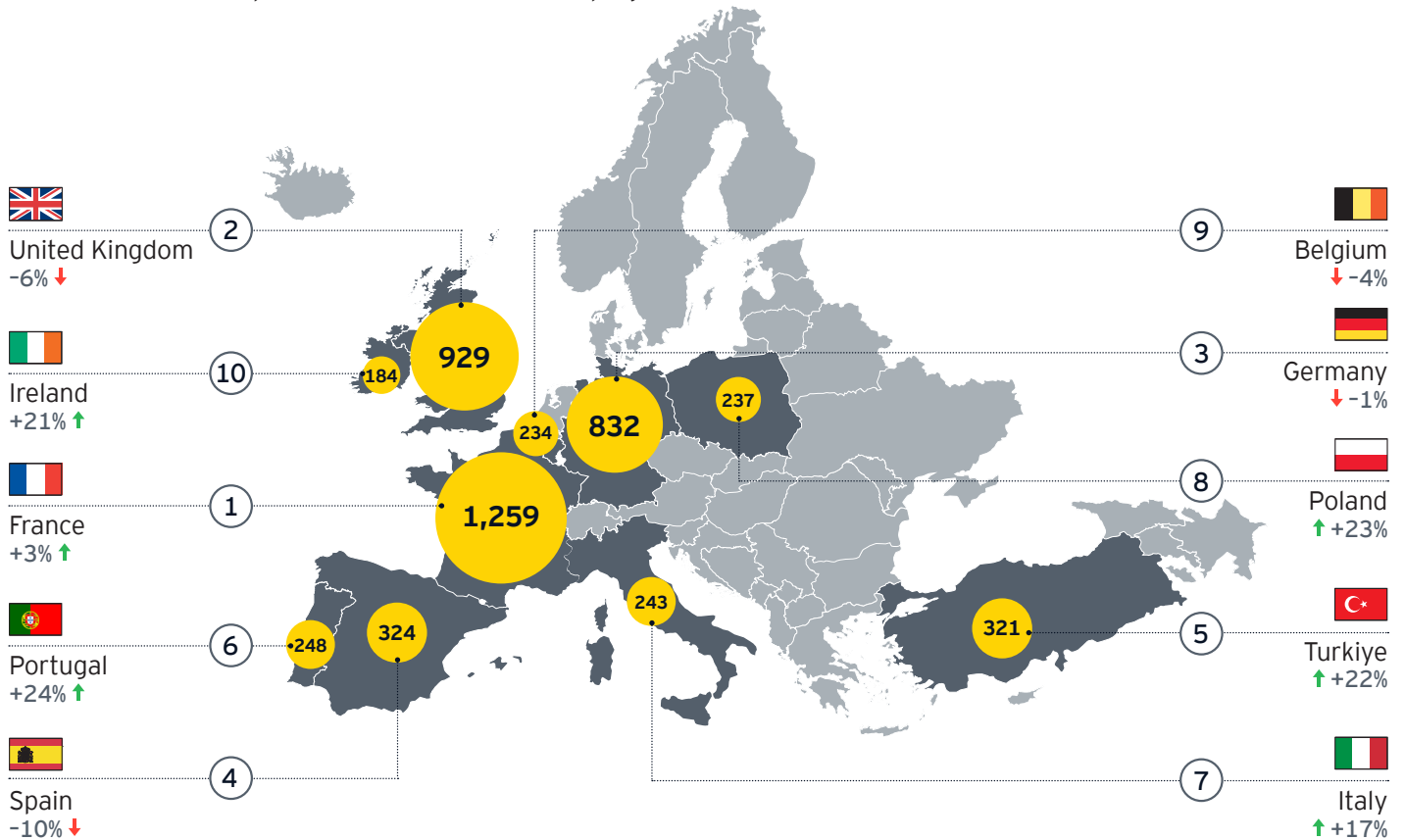
Europe's three largest economies continue to attract the bulk of FDI flows, accounting for 50% of total projects in 2022:

- ▶ **France** had 1,259 projects (up 3% on 2021).
- ▶ **The UK** had 929 projects (down 6%).
- ▶ **Germany** had 832 projects (down 1%).

One of the most striking features of the 2022 data is the increase in FDI projects in several Southern, Central and Eastern European states, including Italy, Poland, Portugal, Romania and Turkiye. This is partly a result of the reconfiguration of global supply chains and a trend toward cost-competitive locations for manufacturing and back-office operations. Meanwhile, Ireland recorded a substantial increase, partly reflecting its agile, pro-business agenda and appeal to large US corporates.

Figure 2

Share of market: Top 10 host countries for FDI projects in 2022



Source: EY European Investment Monitor 2023.

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Porto has become a hotspot for foreign direct investment in Southern Europe, attracting over 2.7 billion euros in investment projects and being able to create 17,400 jobs over the last three years.”



Ricardo Valente
City Councillor for Economy, Employment and Entrepreneurship, Porto

The outlook for 2023

The factors that shaped the backdrop for FDI's disappointing trajectory in 2022 have not gone away. These include widespread macroeconomic pressures and rising geopolitical tensions – not only the war in Ukraine but, increasingly, in the relationship with China.

New challenges are emerging too. The IRA, for instance, is already attracting investors to the US, affecting Europe's strategic industries such as energy, automotive and advanced manufacturing. It has the potential to reshape transatlantic competition for inward investment.

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We are in a phase of increasing geostrategic tensions which are leading to a global reconfiguration in which Europe is also seeking to reduce its external dependencies. The fundamental structural shifts that are under way are creating huge instability, and this is expected to last for a couple of years as countries and businesses adapt. This is what we describe as 'stabilized volatility.' Going forward, volatility will be perpetuated but it is likely to be at a more consistent level than in 2022.

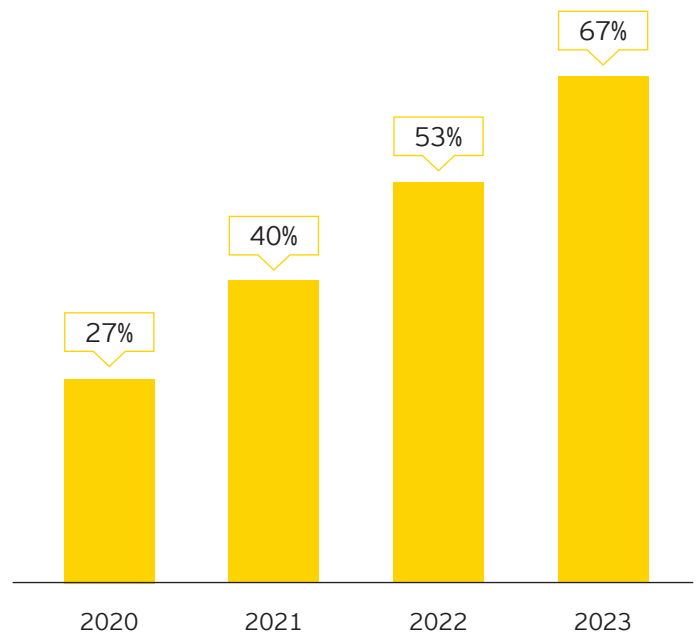


Famke Krümmüller
EY EMEIA Leader,
Geostrategic Business Group

Despite the challenging environment, there are still reasons to be optimistic about the prospects for FDI in Europe in 2023: 67% of the businesses we surveyed have “plans to establish or expand operations in Europe over the next year,” a metric that has rebounded sharply since the pandemic.

Figure 3

Does your company have plans to establish or expand operations in Europe over the next year? “Yes” answers only.

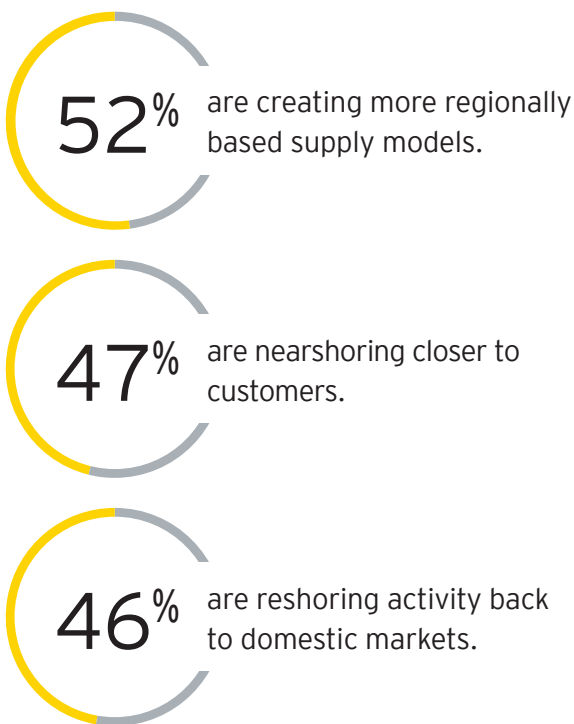


Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

This headline figure conceals important differences: Only 53% of companies headquartered overseas say they have plans to expand or establish operations in Europe, compared with 77% of European-headquartered executives. This suggests Europe's reputation could be strengthened among businesses beyond the continent.

Figure 4

Supply chain redesign



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

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Inflation and elevated interest rates continue to weigh heavily on both household purchasing power and investment demand – yet Europe’s economy has proven more resilient than many expected, leading to an upward revision of our GDP forecast for Europe in 2023. With increased public investment on the horizon, especially in energy and technology infrastructure, the improving outlook may stimulate an increase in private investment as businesses seek to accelerate their digital and green transitions.



Marek Rozkrut

EY Chief Economist – Europe & Central Asia, EMEA Economists Unit Head



Risks to current plans

Despite the optimistic picture of investors' plans for 2023, the economic environment remains challenging. Growth forecasts are modest: According to the latest EY forecast, the EU economy will grow by 0.7% in 2023², while the EY ITEM Club forecasts UK growth of 0.2%³. Geopolitical risks also persist: For now, there is no end in sight for the war in Ukraine, while the relationship with China is growing more tense. To make matters worse, the stability of the global banking sector is an ongoing concern as interest rates rise (having been headline news while our survey fieldwork was in progress, as Silicon Valley Bank collapsed). Similarly, Credit Suisse's failure shows how financial instability could cloud the outlook for Europe.

These economic and geopolitical challenges are reflected in investors' assessment that rising interest rates and inflation are the factors most likely to affect investment in 2023.

² EY European Economic Outlook – April 2023, EY, 2023.

³ EY ITEM Club Spring Forecast, EY, 2023.

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Despite significant geopolitical, economic, and more recently, banking volatility, financial services FDI across Europe rose and the region recorded a 20% year on year rise in related job creation. This speaks to the underlying resilience, capability and skills found in Europe's financial centers, and demonstrates sustained confidence from global investors even in turbulent times. As we look ahead, Europe's economies are expected to bounce back and attract increasing levels of inward financial services investment from late 2023.

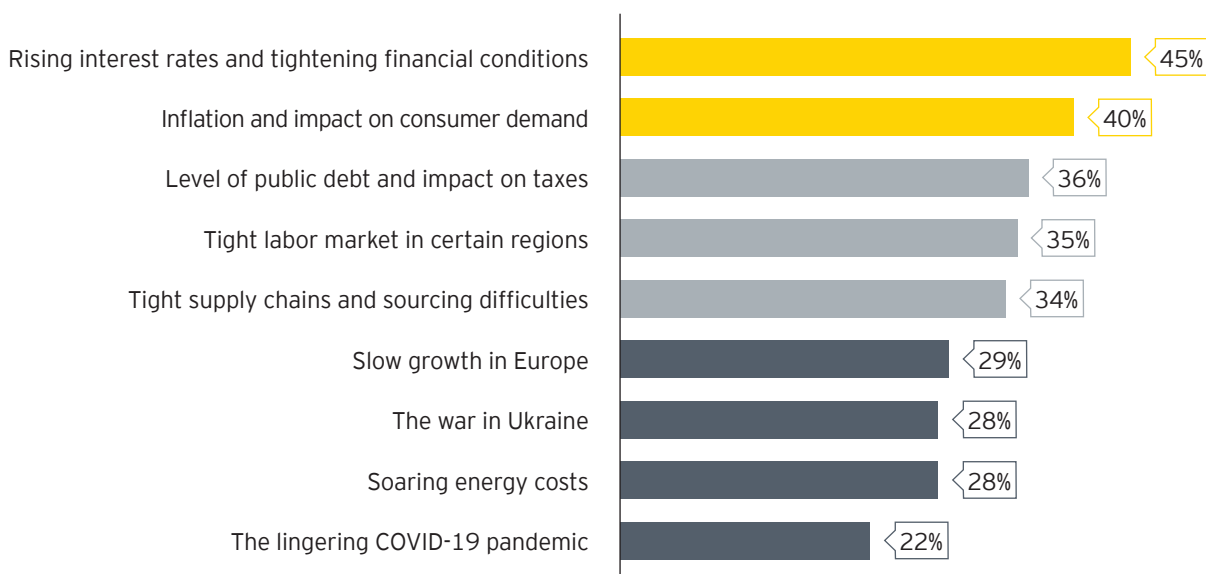


Omar Ali

EY EMEIA Financial Services Managing Partner

Figure 5

Which three of the following economic risks will impact your 2023 investment plans in Europe the most?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).



2

How investment decisions are shaped: will 2023 be a turning point?

For companies making decisions about where they are located, the calculus is changing. As business's priorities evolve and the interests of communities and policymakers shift, a new location logic is emerging.

The core imperatives of competitiveness, agility and speed are still important, but new issues are rising up the agenda. Businesses are entering a new era of scarcity – particularly in talent, land and, more recently, energy. Stability is in short supply too. The impact of geopolitics on the economy was vividly illustrated by the war in Ukraine and its wider economic consequences. The threat of new crises looms large – witness nervousness about the banking system in the first half of 2023. Businesses also need to assess which locations can help them accelerate their transition to net zero or provide favorable conditions for building new digital business models.

Investors also need to be aware of the evolving priorities of communities and policymakers at all levels across Europe, which seek inward investment not only to support jobs and wealth creation but also their wider environmental and social aims while keeping in mind the geostrategic environment, which is driving a move toward greater self-sufficiency.

Against the backdrop of changing requirements and geopolitical and economic uncertainty, this year's survey shows that the most salient criteria for investment decisions are market liquidity and

the availability of capital. Similarly, the January 2023 **EY CEO Outlook Pulse** found that uncertain monetary policy and the cost of capital were among CEOs' top concerns. For the EU, that may improve the case for developing the capital markets union.

We also see investors attracted to strong domestic markets: Larger economies may offer additional stability. The third most influential factor is the policy approach to climate change and sustainability, which features among the top-three priorities for the second year, having ranked second from bottom as recently as 2021. This ranking correlates with the near doubling in the prioritization of national stimulus packages (up to 19%), which can be seen in the context of the US IRA's success in attracting green investment. How will Europe respond?

The cost of energy and the energy mix appear to be less critical location factors than other considerations. Yet higher energy costs drive higher materials costs and elevated inflation rates – and our broader discussions with investors indicate that energy remains a fundamental concern for many. The results may reflect the steps that companies have taken to diversify and secure energy supply. Moreover, they are confident that European policymakers will have to stay focused on energy security as a major aspect of strategic competitiveness: Otherwise, gas reserves could run out in winter 2023-24, and high costs could severely damage Europe's manufacturing base.

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Investment decisions are not just about how attractive certain countries are for companies – they are also about how attractive companies are to countries. Local communities may not welcome investments in projects that would be heavily polluting, for example. For businesses and countries alike, the economic, environmental and social considerations need to be balanced.

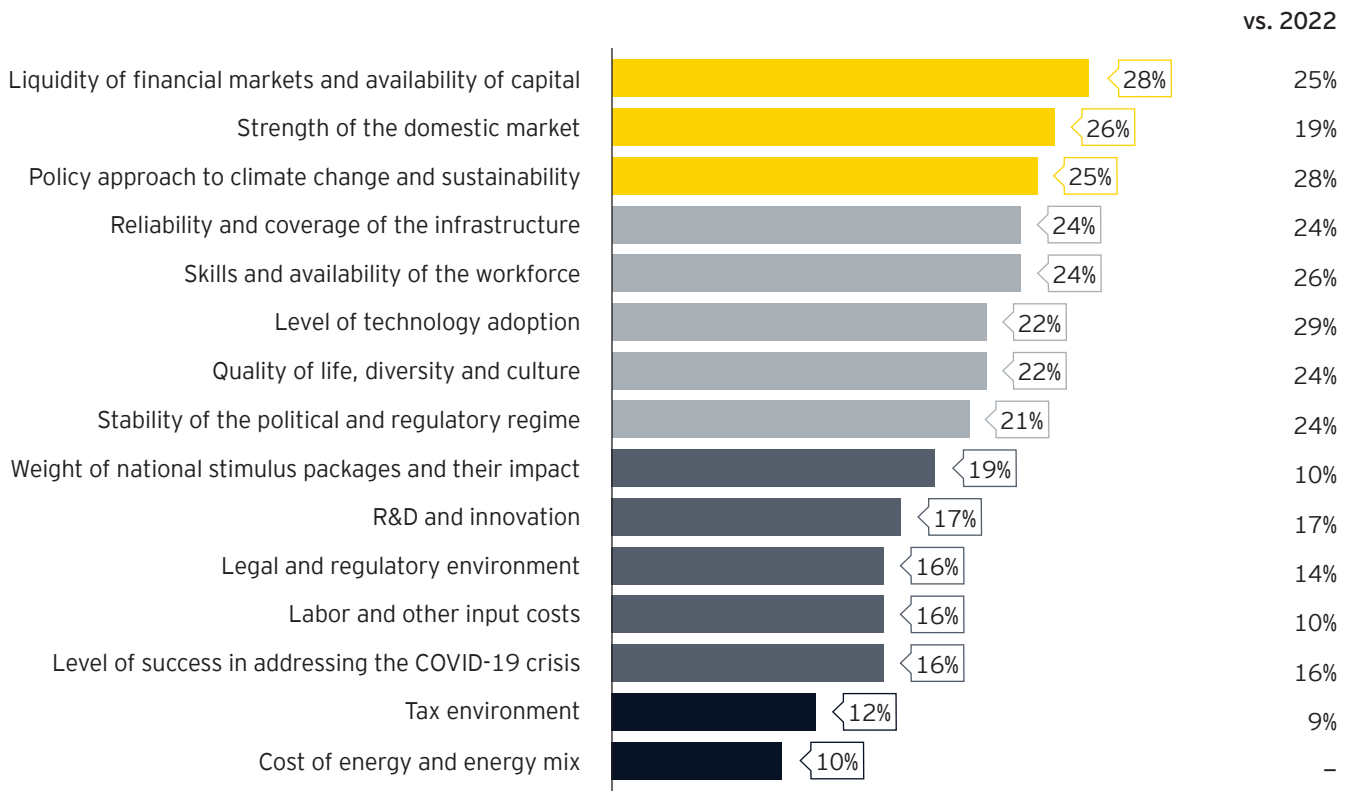


Jan Niewold
EY EMEA Climate Change and Sustainability Leader



Figure 5

Of the following factors, which three are the most important when choosing a country to invest in?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

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For a lot of businesses, the price of energy and security of supply are still the biggest issues when it comes to making investment decisions. The picture is better than 12 months ago, but there are a lot of potential factors that could lead to shortages later this year. And while companies are still attracted to Europe, thanks to its strength as an economic bloc and its political stability throughout recent crises, many have been reconsidering planned investments as a result of the US Inflation Reduction Act. Europe must offer something on a similar scale, and make it as simple as possible for investors to access.



Ferdinand Pavel

EY Head of Public Sector Economic Advice, Germany

External viewpoint

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After the shock of the war in Ukraine, investors' interest bounced back at the end of 2022.



Kaspars Rožkalns

Director of the Latvian Investment and Development Agency

The value of speed and flexibility

After the shock of the war in Ukraine, investors' interest bounced back at the end of 2022. We realize that our advantage is speed and flexibility in adapting the range of support tools to the needs of each client, so we are improving our "Green Corridor" regulations for priority investment projects, to accelerate the examination

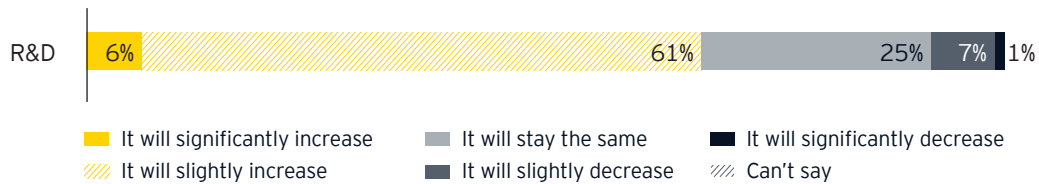
of potential investments by all state administration institutions and municipalities. We will also continue the large investment program, in which around 30 million euros will be available this year, working in close cooperation with the Ministry of Economy and ALTUM, Latvia's state-owned development finance institution.

The longer-term outlook

Investors are upbeat about Europe's longer-term prospects: 67% believe that Europe's attractiveness as an investment destination will increase over the next three years, which is up two percentage points compared to 2022.

Figure 7

In the next three years and in the following categories, how do you expect to change your current footprint in Europe?



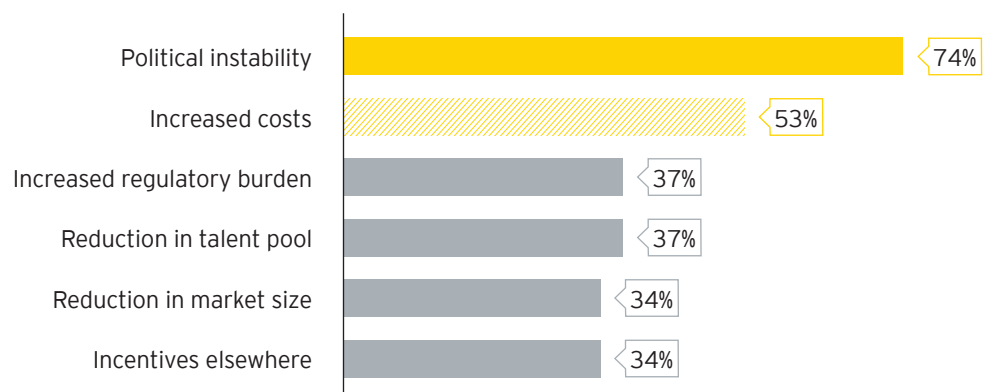
Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

To those who expect Europe's attractiveness to decrease, we asked a new question: why? The top concerns were political instability and increased costs, followed by concerns about regulation and the availability of talent. The high ranking of

political instability may, in part, be a proxy for concerns about the continuing war in Ukraine, but it also points to broader anxieties about shifts in policy priorities that could undermine support for business.

Figure 8

Why did you say that you expect Europe's attractiveness to decrease?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 41 surveyed between 1 February and 20 March 2023).

External viewpoint

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Policymakers must encourage innovation at all levels with a coherent policy.



Reda Guiha

Country President, Pfizer France

Support innovation to boost life sciences investment

For Pfizer, the critical factor for investment decisions is whether there is an environment favorable to innovation: A thriving research and development ecosystem, access to skills, a commitment to remaining competitive, and recognition of the value of innovation.

In France, for example, the Health Innovation 2030 plan provides a strategy for France to become the first innovative and sovereign European nation in health. It includes support for medical research, which is an essential foundation, as well as for the creation of new bioclusters and university hospital institutes. The approach will be excellent for France, and it strengthens the European dynamic too.

Skills are fundamental too. It is vital that the training offer is aligned with companies' needs, and adapts to the new skills sought by the most innovative companies, such as in digital and data processing. Political and economic stability are also key. Again, France has weathered recent crises well.

Naturally, life sciences and pharmaceuticals are heavily regulated, and there are some critical discussions under way that will shape Europe's success in this field. There is a risk that some proposed changes will increase uncertainty and risk, and ultimately be harmful for investment. Policymakers must encourage innovation at all levels with a coherent policy – you can't ask companies to take risks and then ignore what they say they need.

What should be crystal clear to policymakers is the scale of the threat posed to life sciences investment in Europe by global competition. As ever, China continues to promote strong industrial policies that support its own innovation competitiveness, while in the US, Biden has advanced policies to strengthen American competitiveness. The EU's response, which includes the Net Zero Industry Act and the European Chips Act, is critical for boosting the life sciences sector. Without the right incentives and ecosystem in place, European markets will fall behind.

Growth areas for investment

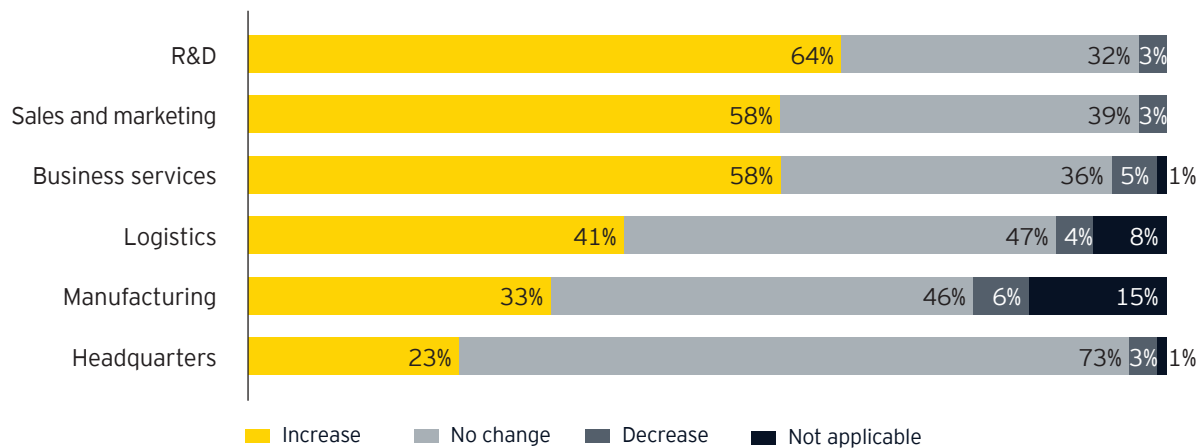
The themes emerging in this research echo those of the January 2023 **EY CEO Outlook Pulse**, which found that CEOs' top areas for increasing investment to strengthen performance are operations, sustainability, and innovation and R&D.

According to the Europe Attractiveness Survey, 64% of executives expect to increase their European footprint in R&D over the next three years. But far fewer expect to increase their manufacturing footprint. What are the implications of that gap? Technology development tends to create small numbers of high-value jobs, but creating jobs at scale means attracting investment to build those technologies. There are strategic advantages in doing both.

Against a backdrop of an economic slowdown and energy crisis that have hit Europe's manufacturing industries hard, the relatively weak outlook for manufacturing projects is also a concern. If manufacturing does not become a bigger priority Europe could lose out on the potential benefits of supply chain redesign, will struggle to build the industrial capacity needed for the net-zero transformation, and will find it hard to build strategic autonomy in a world of increasing geopolitical tensions. More needs to be done to attract more manufacturing to Europe – and not only to its lower-cost destinations.

Figure 9

In the next three years and in the following categories, how do you expect to change your current footprint in Europe?

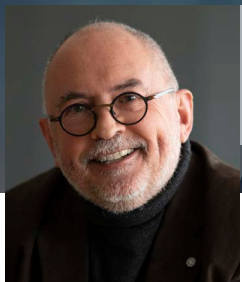


Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

External viewpoint

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Modern manufacturing offers highly skilled and well-paid jobs, and building Europe's manufacturing base will help create a clean economy.



Guillame Alvarez
Senior VP EMEA, Steelcase

A new narrative for manufacturing in Europe

The factors that drive investment decisions have undoubtedly evolved in recent years. The starting point is the size of the market that can be served from the investment location, which is increasingly important because of the need to reduce our carbon impact – so shorter routes to market are key.

Then there is the ease and speed of steps to set up the investment, and another factor that has moved to the top of our considerations, which is the availability of skilled labor. For a manufacturing investment, that includes everyone from sophisticated IT engineers to blue-collar workers to top-floor leadership executives. Then there is the regulatory environment for managing performance and flexing the workforce

Incentives are another factor. The US has moved aggressively into incentives, which has changed the situation dramatically. We are in a very competitive global environment, and I don't think that European institutions or governments are paying enough attention to what other regions of the world are doing to attract investment.

One of the things we have to change in Europe is the mindset around reshoring and manufacturing. When people talk about it, it sounds like a necessary evil: “We have to do this because otherwise we won't have the vaccines, or medicines, or computer chips – they will be made somewhere else and that's a risk.” We are missing a sense of excitement about building things and bringing good jobs to regions and communities.

Unfortunately, people think of manufacturing jobs as dirty, difficult, badly paid and polluting. But modern manufacturing offers highly skilled and well-paid jobs, and building Europe's manufacturing base will help create a clean economy.

Besides, factories are not built in London, Berlin or Paris. They're built in small towns and communities. Foreign direct investment can play a massive role in bringing wealth to these communities and securing their future.



3

Building Europe's future:
how to attract next-
generation investment?

The 2023 survey data suggests that investors are positive about Europe's prospects. But in a fast-changing world, nothing can be taken for granted. Policymakers at all levels will need to understand investors' evolving priorities and do what they can to attract the next generation of FDI in Europe that will be driven by those requirements.

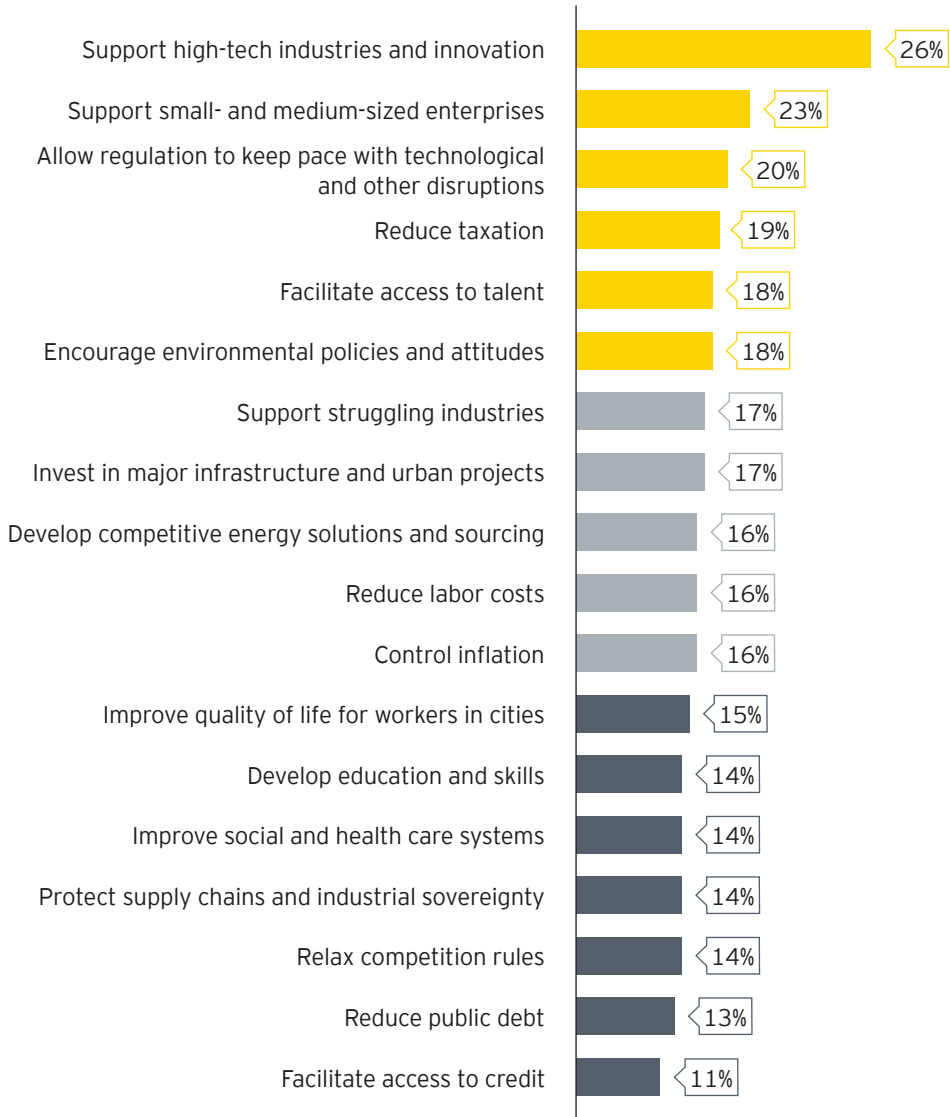
What, then, are investors' priorities for maintaining Europe's competitive position in the global economy? At the top of the

list is support for high-tech industries and innovation. That is closely followed by support for SMEs – a segment that is also critical for innovation – and then by a focus on the regulatory environment, especially as it relates to emerging technologies.

We have identified six areas where businesses look to policymakers to build Europe's attractiveness as a destination for next-generation inward investment.

Figure 10

In your view, where should Europe concentrate its efforts in order to maintain its competitive position in the global economy?



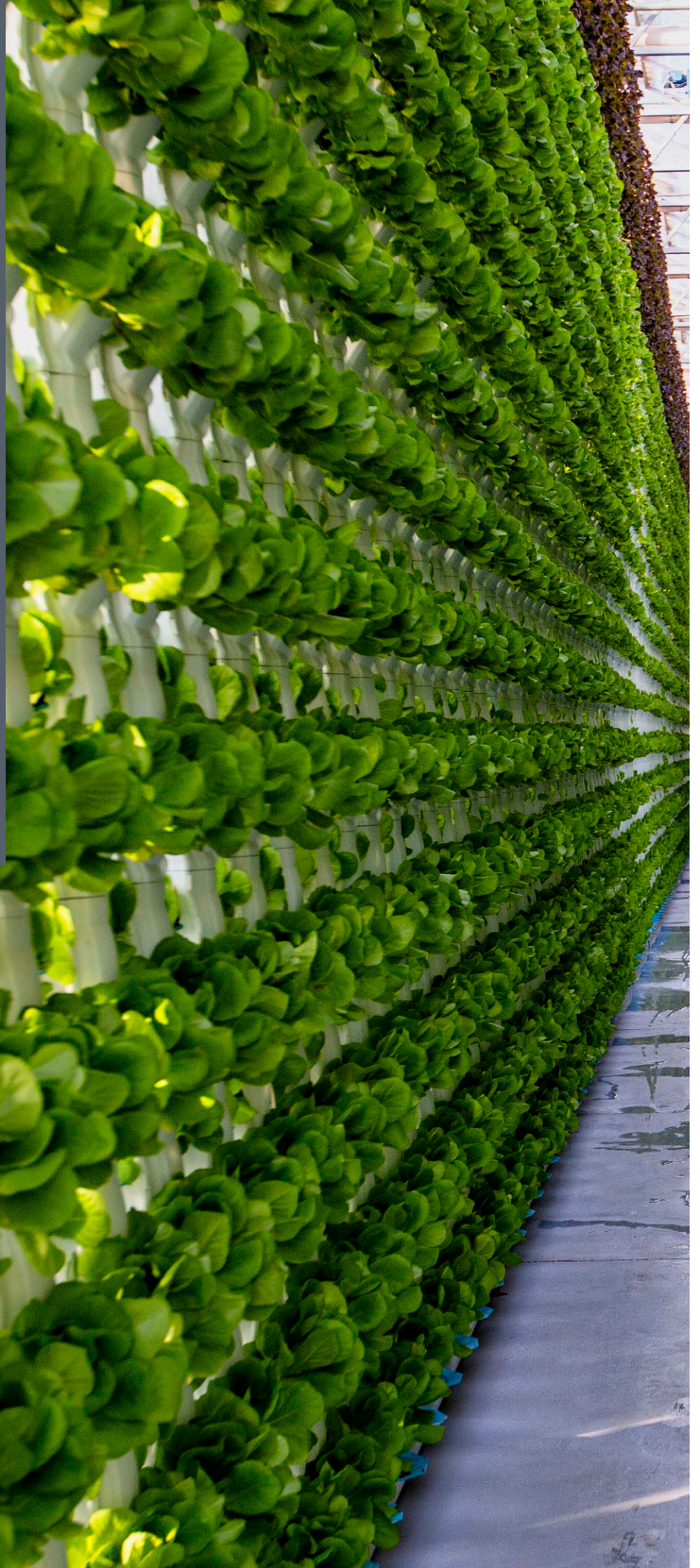
Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

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There are two overriding priorities for Europe. First, it is crucial to start looking at energy policy as a critical component of our competitiveness. Within the EU, that means recognizing energy as one of the key pillars of the internal market. If we don't do that, Europe's industrial system will struggle to stay cost-competitive. The other priority is the need to strike the right balance in the implementation of the EU regulations for the digital age, between the protection of citizens and consumers, and the cost of compliance for SMEs and innovative businesses.



Alessandro Cenderello
EY Managing Partner for EU Institutions



1

Refresh Europe's appeal as the natural home of next-generation businesses

In 2022, the biggest single source of FDI in Europe was the US, which generated 1,240 projects. But the other biggest countries of origin were European: Germany (685), the UK (515), France (294), the Netherlands and Switzerland (both 248). In total, 60% of FDI projects in Europe originated within Europe.

There is a political question here. Not all foreign investment is welcomed uncritically by politicians and policymakers, particularly where it relates to strategically significant industries. But the data suggests that Europe could strengthen its narrative among investors outside of Europe, which will also reinforce the narrative for internal investors.

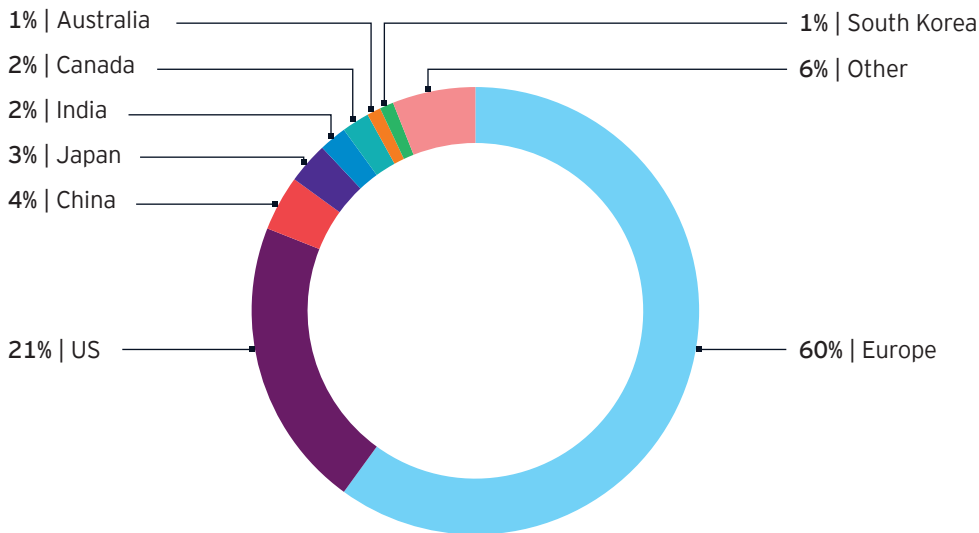
That narrative should be premised on building Europe's role as the place to create long-term value and a home for the businesses of the future that will create value in the highly digital and low-carbon economy of the 2030s. What will the continent do now to shape the Europe of 2030? It remains a wealthy part of the world, with economies that have mostly proved resilient against recent shocks, and it should project

confidence about its future: The message must be that the continent's best days lie ahead. Investors will welcome a forward-looking narrative about how the continent will capitalize on its present strengths, including in R&D, intellectual property and advanced manufacturing, and how it will extend its leadership to the digital economy and green technology.

Political commitments to coordinated action on these era-defining challenges, and in response to competition from the US and new emerging economies, will be welcomed by investors. There needs to be a collective European sentiment that reminds investors of the power of Europe as a whole – that it has strength as a collective, above and beyond the individual economic interests of nations, regions or cities. In that respect, many businesses are likely to welcome fresh political impetus within the EU for the capital markets union. Building on the logic of the single market, improved integration for Europe's capital markets could increase their collective strength.

Figure 11

Share of FDI projects by investing countries and regions in Europe in 2022



Source: EY European Investment Monitor 2023.

2

Reinforce support for SMEs, which remain the vulnerable fabric of Europe's economy

Figure 12

How do you expect Europe's attractiveness to evolve over the next three years? ["Increase" answers only]



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

One of the biggest priorities in shaping a competitive business environment fit for the future should be to boost support for SMEs and help them to scale more effectively.

Our survey makes the challenge clear. Far fewer SMEs than larger firms plan to expand in Europe in 2023 (57% compared with 79%), and they are less optimistic about Europe's prospects for the next three years.

Investors need to have confidence that Europe is committed to helping SMEs thrive. Governments and multinationals could do more to support their subcontractors and business partners, which employ about 100 million people and play an important role in creating value across all sectors.

The aim should be to make Europe the home of global leaders in the digital and zero-carbon economy of the 21st century. Policymakers will need to take a comprehensive view of all the elements needed for more SMEs to make the leap to become potentially world-leading businesses, from the availability of growth capital to the impact of regulatory frameworks.

“

The imperative for Europe is to stay at the forefront of the technology frontiers that are reshaping the economy, particularly digital and green technologies. That may require active industrial strategies at a national level, identifying sectors where countries can specialize and excel. Europe also needs to do more to help innovative smaller companies scale up to become world-leading businesses. That could mean taking steps to increase the availability of growth capital and setting out regulatory frameworks that reduce barriers to investment – and do not create burdens that disadvantage Europe relative to the US or China.



Peter Arnold
EY UK Chief Economist
Ernst & Young LLP

3

Simultaneously strengthen Europe's capabilities for developing technology and manufacturing in all sectors

Our survey identifies R&D as the top category for new investment in Europe over the next three years. That gives the continent a unique opportunity to incentivize manufacturing capability that is aligned with emerging technologies.

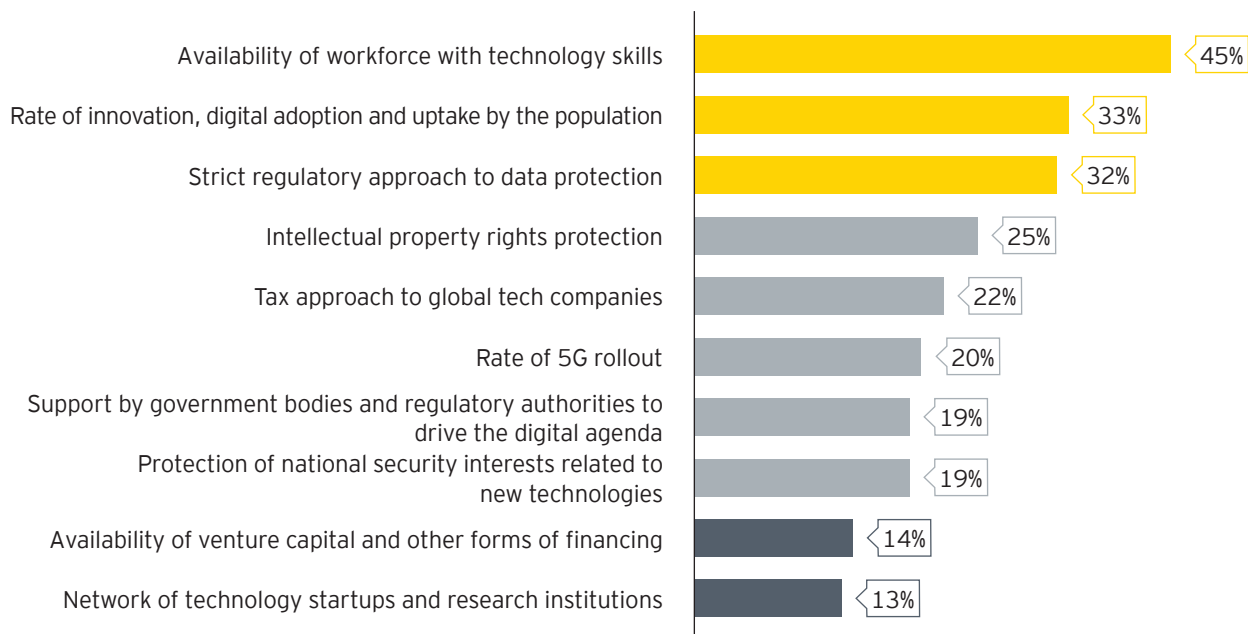
Europe has real strengths on this front. Investors value the availability of technology skills and the rate of innovation and digital adoption by the population, and emphasize the core appeal of Europe's wealthy markets. Europe's regulatory frameworks are also regarded as advantageous, whether on data protection, intellectual property or the evolving tax approach. In addition,

the funds now being released through the EU Resilience and Recovery program could have a significant impact in accelerating digital transformation in the coming years.

Boosting Europe's manufacturing base alongside its capabilities in innovation and development requires policymakers to think in terms of the entire value chain. Incentives to promote R&D are valued, but businesses should also be encouraged to locate other parts of their value chain in Europe, across product design, implementation, delivery, manufacture and delivery to market. That will also expand the opportunities available to SMEs.

Figure 13

In your view, how does Europe perform with regard to the following technology-related factors?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

Note: The percentage shown is the net difference between respondents rating Europe performing better versus those rating Europe performing worse.

4

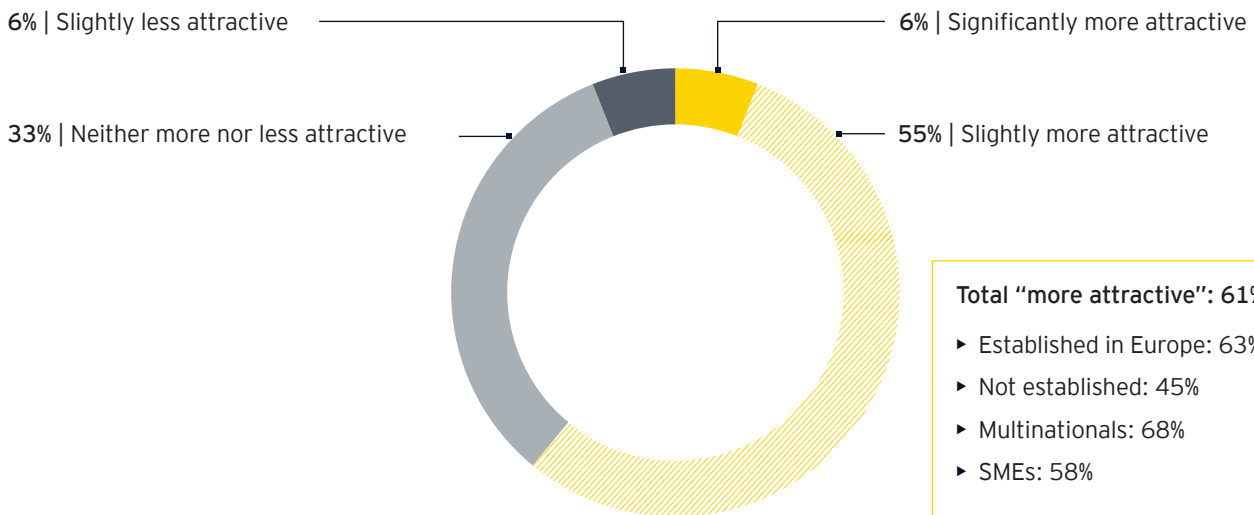
Make the most of Europe's leadership on climate change and accelerate on ESG

Europe's leadership on climate change will be a critical element of its competitiveness as the rules of the global economy evolve during the 2020s. Businesses will seek to accelerate their ESG transitions, so the environment created by policymakers – through regulatory frameworks, incentives for green industries and investment in key skills – will be crucial. The survey results show that 61% of investors see Europe as more attractive than other regions for sustainability-related factors. This could change, not least because of the US IRA. Investors seek a response of similar scale, ambition and simplicity in Europe.

Europe has several levers it can use relating to sustainability. The survey results underline the importance of the rising share of renewables in Europe's energy mix, for example. Access to decarbonized energy is increasingly important, especially for energy-intensive investments such as factories, and investors are attempting to limit their exposure to future changes in carbon prices. Europe should do everything it can to continue driving up the percentage of renewables.

Figure 14

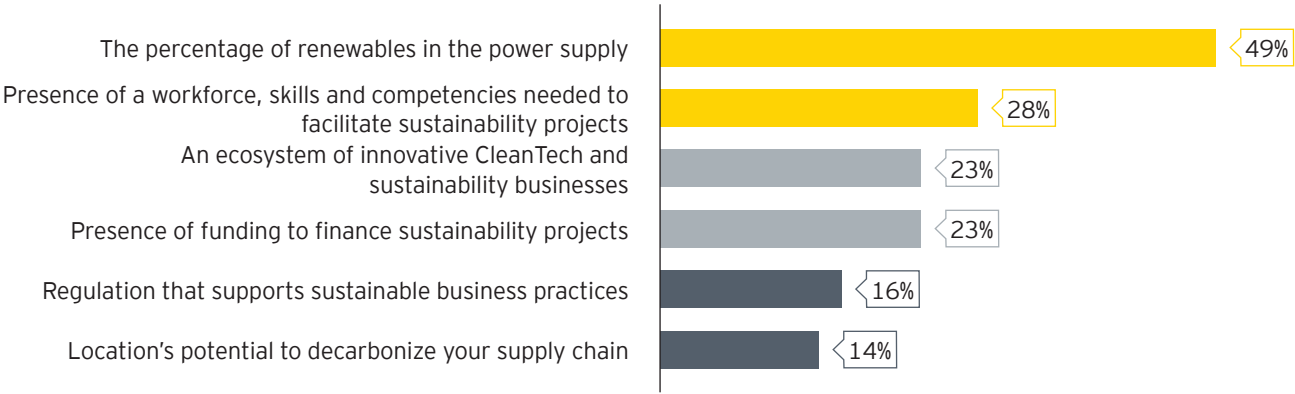
In terms of sustainability-related factors, how does Europe compare with other regions for your investments?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

Figure 15

In your view, how does Europe perform with regard to the following sustainability-related factors?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

Note: The percentage shown is the net difference between respondents rating Europe performing better versus those rating Europe performing worse.

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Policymakers can help European businesses be competitive by supporting them in anticipating new green rules – and by avoiding creating too great a burden in terms of complex corporate reporting requirements and compliance rules. Businesses would like a more practical approach that distinguishes between areas where very precise and reliable data is required, areas where there could be more flexibility on the quality of data and areas where companies could have discretion about whether to go further.



Alexis Gazzo
EY Europe West Sustainability Co-Lead



5

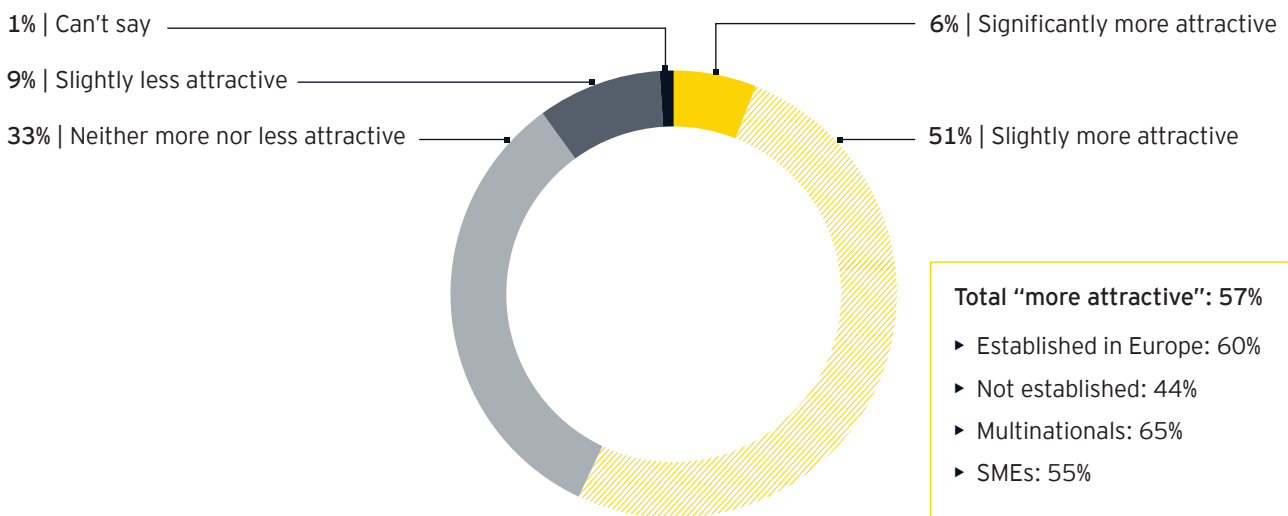
Develop next-generation talent and align skills with the vision of Europe's future

Our survey identifies skills among the most important factors for companies when they choose where to locate. At a time of high employment and talent scarcity in many markets, the availability of high-level skills is a competitive advantage for Europe. But the competitive threats are obvious, not least

the huge expansion of higher education around the world. Generative AI could also have the effect of leveling the playing field, rapidly enhancing capabilities outside Europe in areas that have until now been the preserve of highly skilled individuals.

Figure 16

In terms of talent-related factors, how does Europe compare to other regions for your investments?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

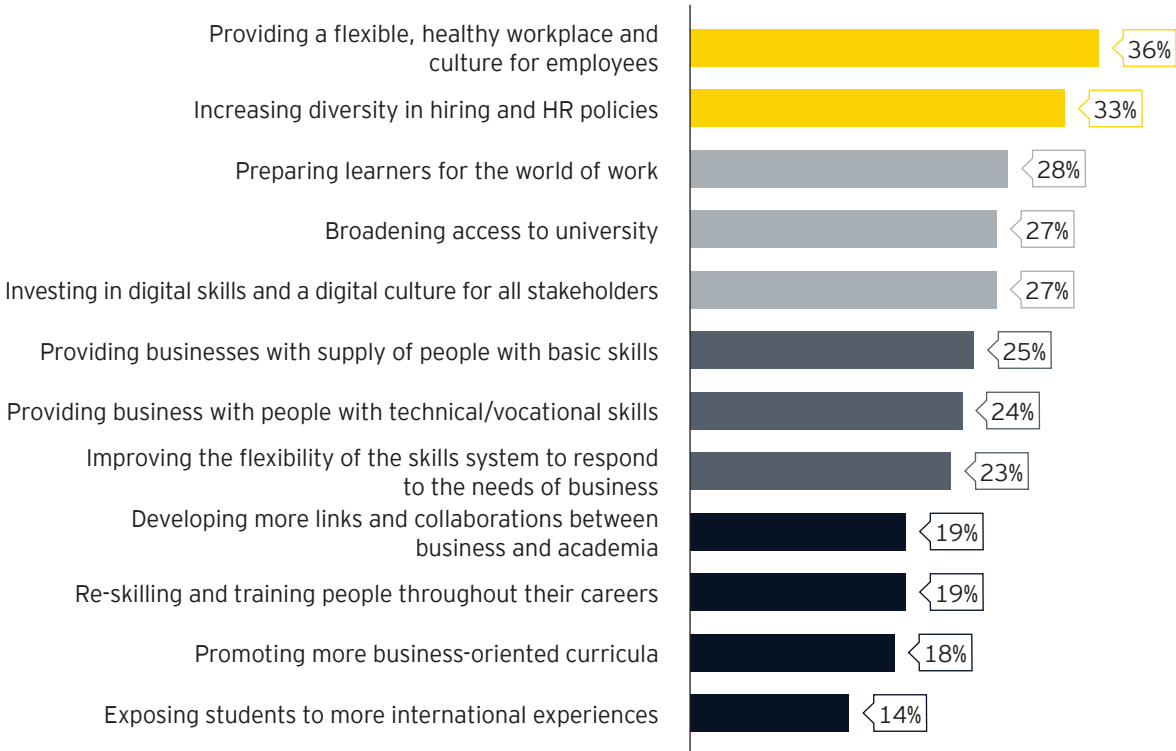


The EU has designated 2023 the European Year of Skills, with a view to increasing momentum toward its 2030 targets to have at least 60% of adults in training every year and at least 78% in employment. But every year of the coming decade needs an equally sharp focus on skills, across every European state. Business's strategic needs are evolving quickly, and AI could hugely disrupt the labor market by 2030. Europe needs a cohesive approach that aligns business and educators around changing economic requirements.

That also means recognizing the contribution of broader talent-related factors to Europe's success, including the strength of its workplace cultures and its workforce diversity. Europe boasts world-class organizations, many of which are leading the way in defining the future of work, and shaping ways of working that both boost productivity and offer employees an enhanced quality of life. The contribution of these factors to economic prosperity is significant.

Figure 17

In your view, how does Europe perform with regard to the following talent-related factors?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

Note: The percentage shown is the net difference between respondents rating Europe performing better versus those rating Europe performing worse.

6

Build confidence with a modernized tax and regulatory regime

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The EU agreement on minimum taxation rules means that corporation tax levels will be relatively less important in determining where companies choose to be located. Investors will focus instead on other aspects of taxation. One is complexity – policymakers need to ensure tax regimes are as simple as possible. And as predictable as possible, too. Maintaining a stable tax environment, even during troubled years, can yield substantial benefits for investment, as we now see in France. Investors will also seek a pragmatic approach from tax administrations when applying the rules.



Jean-Pierre Lieb
EY EMEIA Tax Policy and
Controversy Leader



The survey reveals that investors' top priority for tax policy in 2023 is the provision of R&D tax credits, which was ranked only fourth in 2022. This may reflect planned investments in R&D – and the impact of the US IRA, which has shown the potential impact of tax credits for stimulating activity.

More broadly, businesses want tax rules to be as simple to understand and apply as possible, and they prize stability. Political commitment to maintaining a stable tax environment – even in difficult economic circumstances, when policymakers might be tempted to target business to increase tax yields – has a huge impact on business confidence to invest.

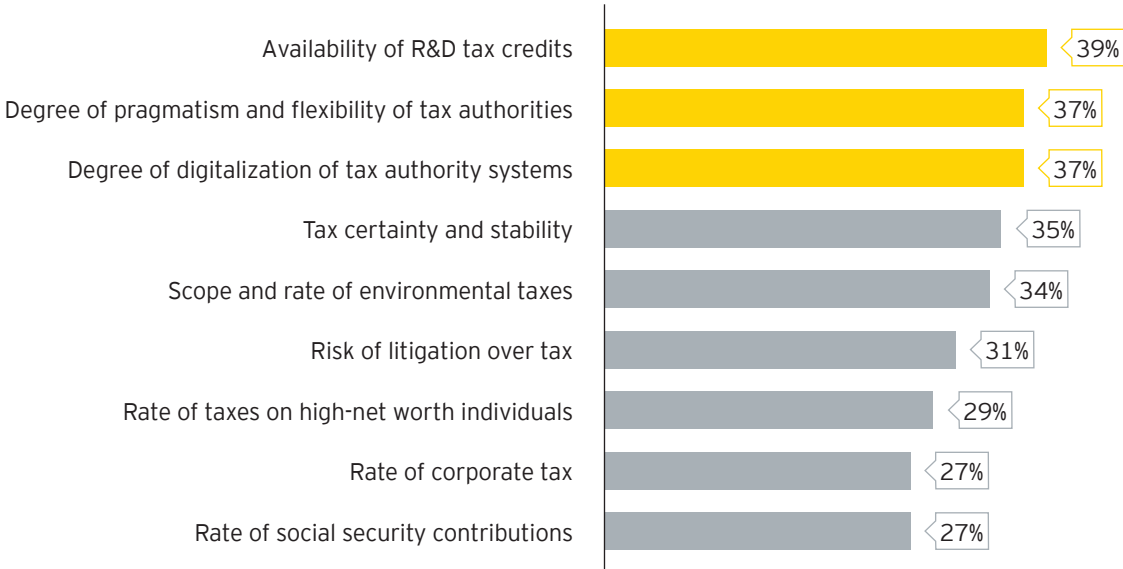
Investors also seek further digitalization of tax systems, along with a pragmatic and flexible approach from tax authorities.

Compared with the relatively simple operation of the IRA in the US, the process of accessing green funding in Europe is complex and bureaucratic. Simplifying the relevant processes could encourage investors, but there have also been calls for more radical steps, such as adjusting long-standing rules on state aid. As the global landscape changes, this may be necessary, although policymakers will need to beware unintended consequences. But our research suggests that business will welcome initiatives to strengthen internal markets. These might include moves toward a capital markets union or strengthening aspects of the single market, such as services and infrastructure, to maximize the benefits of a resilient, continent-wide market in a volatile world.

Clarity and stability are also important for Europe's regulatory frameworks. Even where policy is emerging in new fields, such as AI and low-carbon technologies, policymakers can build investors' confidence by giving them clear signals about their intentions. The priorities surely must include rapid steps to put Europe at the forefront of the AI revolution by developing strong regulatory frameworks that allow business to reap the benefits of AI while setting clear parameters around its use. Succeed in that, and Europe could benefit from a "flight to safety," just as businesses largely regard Europe's current regulatory frameworks as an advantage, whether on data protection, intellectual property or tax.

Figure 18

Of the following tax-related factors, which three are the most important when choosing a country to invest in?



Source: EY Attractiveness Survey Europe June 2023 (total respondents: 508 surveyed between 1 February and 20 March 2023).

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We all need to be thoughtful and considered when assessing potential changes on state aid. Above all, investors seek stability. When companies have built a business case for investing based on a certain set of rules and those rules then change, there is a risk that their confidence is shaken – even if other investors may be encouraged by the same change. It is a delicate question of balance. Do we really want to risk undermining one of the core ideas of the internal market, and one that has served us so well to date?



Ambrose Murray
EY EMEA Public Policy, Director



Methodology

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database.

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.

To confirm the accuracy of the data collected, the research teams aim 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 results 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. For example, 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.

However, our figures also include investments in physical assets, such as plant and equipment. 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.

The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor 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 Euromoney in February and March 2023 via online surveys, based on a representative panel of 508 international decision-makers.

Additional sources

- ▶ How to shift strategy for a new geostrategic era in 2023 | EY – Global
- ▶ Why a level head is needed to deal with geopolitical risk | EY – Global
- ▶ Europe Economic Outlook April 2023
- ▶ The CEO Imperative: How will CEOs respond to a new recession reality? | EY – Global
- ▶ Debunking workforce mobility myths | EY – Global
- ▶ How flexible organizations can create stability in the Great Resignation | EY – Global
- ▶ Geostrategic Analysis: May 2023 edition | EY – Global

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- ▶ Guillaume Alvarez, VP EMEA, Steelcase

For more information, please visit: ey.com/attractiveness #EYAttract







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