Building a better working world

NAfW Enterprise and Businees Committee - Inquiry into the Welsh Government's approach to the promotion of trade and inward investment

Submission by Mark Gregory, Chief Economist, UK & Ireland, EY

1. Comments on the Terms of Reference

EY has no comments on the terms of reference.

2. The EY European Investment Monitor

EY's European Investment Monitor (EIM) tracks FDI projects that have resulted in new facilities and the creation of new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent. Data is widely available on FDI but most FDI reports include equity capital, reinvested earnings and intra-company loans. The investment in physical assets, such as plant and equipment, in a foreign country is less readily available and hence the EY EIM provides a more detailed insight as to how inward investment projects are undertaken, in which activities, by whom and, of course, where.

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

The following categories of investment projects are excluded from EIM:

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

In addition to the actual project data identified in the EIM, EY also commission research into investor perceptions on FDI. We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research is conducted by the CSA Institute via telephone interviews, based on a representative panel of 808 international decision-makers.

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

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

Of the non-European companies, 66% have established operations in Europe. As a result, overall, 81% of the 808 companies interviewed have a presence in Europe. The survey results are available at the Uk level but the EIM data can be analysed to the city level within the UK.

3. Wales's Inward Investment Performance

The EIM contains historic data for Wales from 1997 to 2013, broken down by geographic sub-region, sector and type of activity. The chart below shows the performance of Wales in terms of number of projects over the last 10 years compared to Scotland, Northern Ireland and the UK as a whole. Data for 2013 will be released on 27th May 2014 and we will make this available to the committee at that time.

Year	Wales	Scotland	N Ireland	UK Total
2004	35	63	16	563
2005	13	33	18	559
2006	16	62	17	685
2007	22	69	26	713
2008	35	53	19	686
2009	20	51	25	678
2010	19	69	23	728
2011	9	51	17	679
2012	31	73	29	697

Wales' performance has been variable over this period but there has been no increase in the total number of projects over the 35 achieved in 2004. By contrast, the number of projects attracted by Scotland and Northern Ireland has grown over the same period as has the total number of UK projects.

4. Comments on Wales's FDI performance

More analysis is required to identify the drivers of Wales' FDI performance. As an illustration of how the EIM data might be helpful in this process, we analysed a sample of the data presented above.

In 2012, the 31 projects in Wales comprised 13 Manufacturing establishments (drawn from 8 sectors and with 4 projects located in Wrexham), 7 Sales & Marketing Projects (6 from Financial Services with 5 in Cardiff), 2 Contact Centres, 4 Training Centres, 1 HQ, 1 Logistics facility and 3 R&D establishments, 2 of which were in Cardiff. 9 of the projects originated from the USA and 5 from Japan.

We have provided a copy of our UK Report for 2013 which breaks down projects by type, sector and origin for the UK which suggests Wales is less successful than the UK average in attracting investment from Business Services and Software, the 2 largest sectors for FDI in the UK and is also relatively low in terms of investment from Europe.

More work is required to understand if there are opportunities to improve Wales' attractiveness. EY would be very happy to analyse our data to provide insight or specific topics if this would be useful to the committee.

Growing Beyond

Ernst & Young's attractiveness survey

UK 2013

No room for complacency

Ernst & Young

Quality In Everything We Do

Attractiveness

Ernst & Young's attractiveness surveys

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

Contents

UK 2013

Foreword

Lord Green
Minister of State for Trade and Investment
UK Trade & Investment

I am delighted that Ernst & Young's annual research study has confirmed, once again, that the UK remained the leading destination in Europe for foreign direct investment (FDI) in 2012. With world markets — and especially Europe — affected by economic uncertainty, the ongoing strong flow of FDI continues to have a transformational impact on the UK, helping to create and sustain a globally attractive, highly competitive and truly international economy.

As well as retaining its lead in European FDI, the UK secured more investments and a higher market share than in the previous year. This demonstrates a clear improvement over 2011.

As I highlighted in last year's foreword however, there is no room for complacency. While the UK continues to attract more investment projects than any other European nation, competition for FDI within Europe and high-growth markets elsewhere in the world has never been more intense.

We recognize that there is always more to be done to strengthen and enhance the UK's offer to overseas enterprises. In this context, I am pleased to hear that investors think the UK has improved its environment for inward investors in the past year, particularly around the flexibility of our financial system, our support for investments by SMEs, and our effective policy framework to support businesses looking to set up operations here.

And in a year when the London Olympic Games showcased the best of Britain to the world, the UK's increasing attractiveness will help to ensure that the legacy of the Games will continue to attract further investment in years to come. I have no doubt that a further factor in boosting the UK's "brand" has been the high-profile trade missions and promotional activities that we have facilitated during the past year.

"As well as retaining its lead in European FDI, the UK secured more investments and a higher market share than in the previous year. This demonstrates a clear improvement over 2011."

No.1

The UK remained the leading destination in Europe for foreign direct investment (FDI) in 2012.

The fact that investors believe the UK is continuing to improve as a place to invest is an encouraging indication that the steps the Government is taking are right.

This year's Budget set out further actions to build on the progress to date and strengthen the economy. Corporation tax will be further reduced to 20% by 2015, and the Patent Box is now fully in effect. Policy initiatives like these will improve the UK's competitiveness still further, at a time when we have already seen many positive FDI stories, including Jaguar Land Rover's creation of 800 jobs in the Midlands.

Such successes are enabled by Government and business working hand in hand to enable Britain to prosper. By continuing to work closely together, and capitalizing on our world-renowned strengths as a location in which to invest and innovate, I am confident that the UK can further enhance its competitive edge in securing FDI — and retain its top spot as Europe's most attractive investment destination.

"I am confident that the UK can further enhance its competitive edge in securing FDI — and retain its top spot as Europe's most attractive investment destination."

Foreword

No room for complacency

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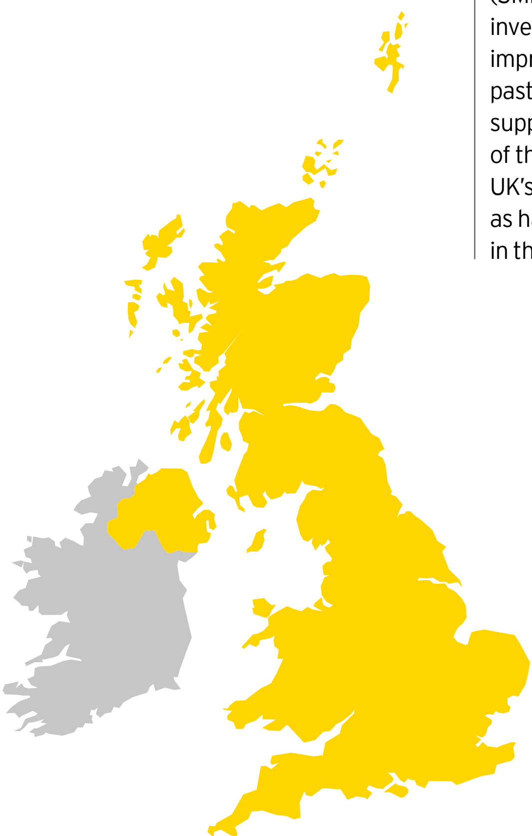


A strong year ...
2012 was a very good year for the UK in attracting inward investment according to Ernst & Young's European Investment Monitor (EIM). The country retained its lead in European FDI projects, with increases in the number of projects secured and also in share of the European market. These achievements were made despite a general decline in FDI projects across Europe, reversing the pattern of the previous year, when UK projects fell amid a Europe-wide rise.

Our survey of investors found positive indications that the Government's efforts in areas such as taxation, trade missions and support for Small Medium Enterprises (SMEs) are gaining traction with overseas investors. Investors believe the UK has improved in a number of areas over the past year, especially financial flexibility, support for SMEs and the specification of the policy regime for start-ups. The UK's entrepreneurial culture is also seen as having strengthened significantly in the last 12 months.

... but warning signs of future challenges
However, a closer examination of the FDI figures and survey findings highlights several warning signs that the competitive pressure from Germany on the UK's coveted lead in European FDI is continuing to intensify:

- The UK slipped behind Germany in 2012 for the first time in new projects, as opposed to reinvestments from existing investors.
- In another first, Germany outperformed the UK in attracting Sales and marketing investments, a traditional area of UK leadership.
- Global investors rank the UK second behind Germany among Europe's most attractive countries for FDI over the next three years.
- Germany maintained its lead over the UK in attracting projects from emerging sources of FDI such as China.

These findings suggest that – on current trends – the UK will have to work even harder to retain its position as the leader in overall projects over the next few years.

However, staying ahead of Germany should not be the primary objective driving the UK's FDI strategy. Our European survey data suggests that many investors view the UK as being in a different market from Germany for FDI, as a result of the two countries' differing economic and market characteristics. The UK should focus on a strategy to maximize its overall market position rather than solely its position relative to Germany.

Build on our strengths

The UK's performance in attracting FDI is driven by a number of key factors that have historically been strengths, but which will require attention in the future to ensure they do not become weaknesses.

- The number of FDI projects secured by most English regions, excluding London, declined in 2012. Investments in England outside of London were 24% below their level in 2010 — a decline that has coincided with the closure of the Regional Development Agencies (RDAs) and the switch to Local Enterprise Partnerships (LEPs). In contrast, Scotland, Wales and Northern Ireland, in the first year of their devolved administrations, recorded large rises. If it continues, the weakness of the English regions could damage the UK's overall ability to attract FDI in comparison to countries such as France and Germany, which have much more balanced regional portfolios.
- The UK's continuing lead in Europe is largely due to its position as US investors' destination of choice. With the US in an economic upswing ahead of Europe, it is vital that the UK sustains its strong FDI relationship with the US while, at the same time, building stronger relationships with other sources of FDI. The UK regained its position as the leading destination for Japanese FDI into Europe in 2012, and should now target other attractive sources of FDI.
- The UK maintained its lead in the fast-growing business services sector in 2012, as well as in software and financial services, although project numbers in the latter two sectors declined in the year. The UK also performed well in attracting FDI for R&D. By contrast, the UK continued to struggle to attract manufacturing, electronics and chemicals FDI, three sectors that are seen as having real growth potential as the world economy adjusts to rising costs in some previously low-cost destinations. The UK must now identify the sectors in which it can develop a meaningful competitive advantage in attracting investment. In an ever more competitive world, it is important to choose where to compete rather than trying to fight on all fronts.

Europe — a potential opportunity

There are signs in the pan-European FDI figures that the euro crisis presents opportunities for the UK: capital is on the move out of the Eurozone. With investment into the UK appearing lower risk than in the Eurozone, and fiscally-stressed euro states starting to invest more overseas to compensate for low demand at home. The euro crisis presents openings for the UK to sell its advantages as an attractive stable and lower risk FDI location to investors in Europe and beyond.

In this context, our survey findings on the UK's relationship with the European Union are especially interesting. 56% of investors in Western Europe feel that if the UK were less integrated into the EU it would become less attractive for FDI, but 72% of US and two-thirds of Asian investors believe that a looser relationship with the EU would actually make the UK more attractive.

No time to lose

Both the FDI figures for 2012, and the perceptions of the UK among international companies worldwide demonstrate clear progress in a number of areas. This is good news. In last year's report, we highlighted that the UK needed to adopt a more strategic approach to FDI, and target support at key areas, including attracting SMEs and profile building through trade missions. This year's findings provide positive indications that the Government's more joined-up approach is bearing fruit. However, it is clear that the international market for inward investment is becoming ever more competitive. The threat from Germany is clear but the UK needs to be mindful of its position relative to other potential destinations as well.

The challenge now is to build on the progress and define even more precisely the UK's strategy for FDI. The UK has a number of strengths. Financial services continues to be identified as the most attractive sector, investment from the US continues to grow, and London is overwhelmingly the preferred location for investment in the UK. But this is too narrow a base from which to compete in an increasingly cut-throat global market. However, it would also be wrong to look to compete for every opportunity.

The UK must therefore define its strategy for competing for FDI by sector, function and region. This strategy can then form the basis for a campaign to reposition the UK with investors as the basis for long term growth. Now is the time to act while the UK is still riding high. The real competitive battle is just beginning.

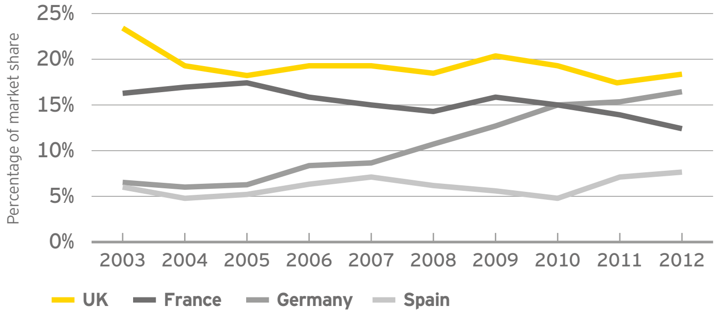
Executive summary

The UK retains its overall lead in European FDI

The UK remained Europe's top destination for FDI projects in 2012, securing a higher number of projects and larger market share than in 2011. These advances kept the UK ahead of second-placed Germany, and were achieved amid a general decline in FDI projects across Europe.

▸ For more on overall FDI projects into the UK, turn to p.8

FDI market share of the top four European countries, 2003–12



Source: Ernst & Young's European Investment Monitor 2013

London continues to dominate UK FDI projects

Despite suffering a small decline in project numbers in 2012, London remained the dominant region for FDI, with 45% of all UK projects. Scotland, Wales and Northern Ireland all saw strong increases, while several English regions outside London fell back. If London is excluded, the number of FDI projects secured in 2012 by the English regions was 24% below its level in 2010.

▸ For more on FDI into different regions of the UK, turn to p.10

45%

In 2012, London remained the dominant region for FDI, with 45% of all UK projects.

FDI projects into the UK regions, and UK market share of projects, 2012

Region	Projects 2012	Share of UK FDI projects	Change on 2011
London	313	45%	-4%
Scotland	76	11%	49%
South East	55	8%	-34%
West Midlands	50	7%	32%
North West	44	6%	13%
Wales	31	4%	244%
Northern Ireland	29	4%	71%
North East	26	4%	8%
Yorkshire	21	3%	5%
East of England	20	3%	-23%
East Midlands	17	2%	-15%
South West	15	2%	-40%

Source: Ernst & Young's European Investment Monitor 2013

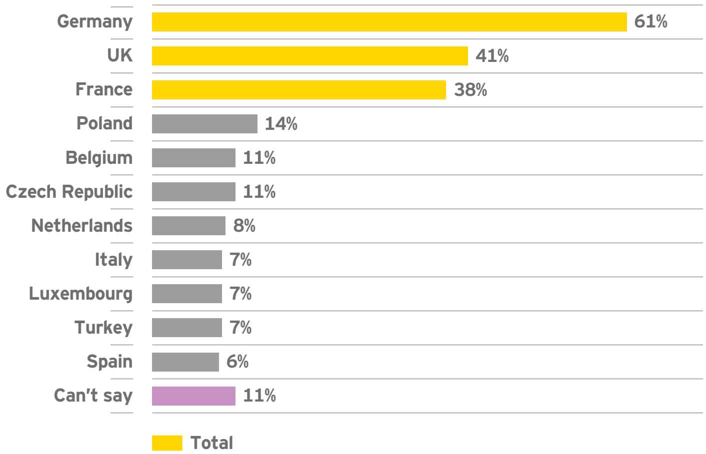
Global investors rank the UK second in Europe for attractiveness

Our research program shows that investors worldwide rank the UK as Europe's second most attractive market for FDI, behind Germany and ahead of France. This top three mirrors the ranking for new projects secured in 2012.

▸ For more on the UK's attractiveness to investors globally, turn to p.24

41%

Most attractive European countries in the next three years of investment projects



Source: Ernst & Young's *2013 UK attractiveness survey*

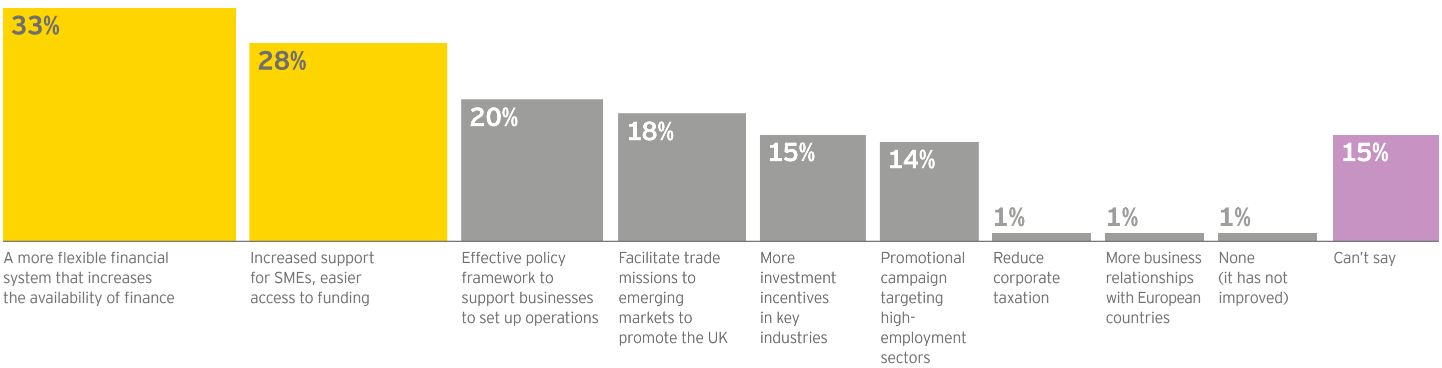
Interviewees were asked to provide three answers: first position, second position, third positions

The UK raises its game

Investors feel the UK has improved its environment for inward investment in several ways in the past year. A number of these areas were highlighted in last year's survey as presenting opportunities for the UK — notably, the flexibility of the financial system and facilitating trade missions.

▸ For more on how the UK has improved its FDI environment, turn to p.31

Areas in which investors think the UK has improved its environment for FDI in the past year



Source: Ernst & Young's *2013 UK attractiveness survey*

Interviewees were asked to select two choices

Reality

UK retains its lead in European FDI projects — with more investments and higher market share ...

In 2012, the UK retained its long-standing position as Europe's leading recipient of FDI projects, and also remained the leading recipient of FDI-generated jobs. The number of FDI projects in the UK increased by 2.6% during the year to 697, the third-highest level in the past decade. This report first looks at the UK's FDI performance in 2012, and then at Ernst & Young's research into foreign investors' perceptions of the UK.

The rise in FDI projects in the UK in 2012 came against a background of a marginal decline in overall projects at a pan-European level, which fell by 2.7% in volume terms – the first annual reduction since 2008. However, the number of projects in 2012 was still the second-highest in the past decade, and there was also a marginal increase in the scale of projects across Europe, resulting in a rise of 7.3% in the number of jobs generated by FDI. The pattern seen in 2012 of rising project numbers in the UK amid a general decline across Europe reversed the trend reported in 2011, when UK project numbers fell back against the backdrop of a general pan-European increase. In last year's report, we highlighted the need for the UK to raise its game: this year's figures suggest that it is doing so.

Total annual FDI projects in the UK over the past 10 years

Source: Ernst & Young's European Investment Monitor 2013

Total annual FDI projects secured by Europe's four largest recipients over the last 10 years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
UK	453	563	559	685	713	686	678	728	679	697	**6,441**
Germany	110	163	182	286	305	390	418	560	597	624	**3,635**
France	313	490	538	565	541	522	529	562	540	471	**5,071**
Spain	119	121	147	212	256	211	173	169	273	274	**1,955**

Total annual new FDI projects secured by Europe's four largest recipients over the last 10 years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Germany	88	103	124	215	247	297	319	436	439	488	**2,756**
UK	292	396	403	496	529	449	477	492	499	455	**4,488**
France	145	298	333	321	330	326	343	326	318	278	**3,018**
Spain	86	79	109	157	183	147	143	133	176	183	**1,396**

… but slips behind Germany for the first time in new projects

However, the UK has no room for complacency. As in 2011, the second-placed recipient of investment projects in Europe in 2012 was Germany, which narrowed the UK's lead further by recording an even stronger increase in projects secured, up by 4.5%. As a result, Germany claimed 16% of the European FDI project market narrowly behind the UK's 18%. Since 2008, Germany has reduced the gap with the UK year on year, and the ongoing trend suggests that Germany may soon catch the UK as Europe's largest recipient of projects. The number of projects won by the UK has remained relatively stable since 2006, at around 700 projects a year. In the same period, Germany has more than doubled the number of projects it wins annually.

"Since 2008, Germany has reduced the gap with the UK year on year, and the ongoing trend suggests that Germany may soon catch the UK as Europe's largest recipient of projects."

Looking more broadly across Europe, the UK, Germany, France and Spain remained Europe's four largest recipients of FDI projects in 2012, with the UK staying in first position as the most popular destination — a lead it has held throughout the past decade. With the UK and Germany both attracting higher numbers of projects and Spain's share of projects remaining broadly flat, France was the only one of the top four to suffer a decline in projects. The number of projects secured by France during the year slumped by 13%, continuing the downward trend seen in its project numbers in 2011, and in its market share since 2009. In absolute terms, France attracted fewer projects in 2012 than in 2004.

Despite the UK's improved performance in 2012, a particular concern arises from the findings on "new" projects representing first-time investments by a company. Europe's four leading recipients of FDI do not change when re-investments at existing sites by foreign-owned companies are stripped out — they remain the UK, Germany, France and Spain.

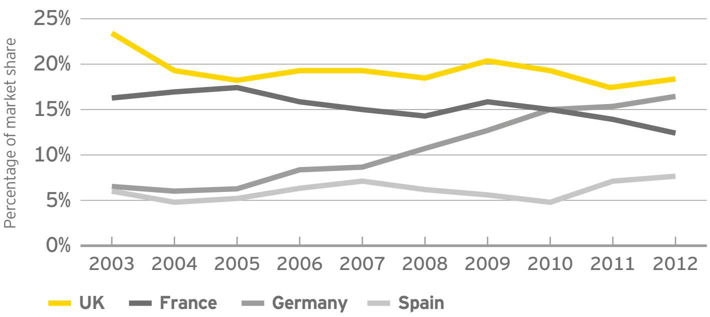
However, the big change in 2012 is that — for the first time since 1997, when EIM first recorded FDI activity across Europe — the UK does not emerge as the largest recipient of new FDI projects.

The UK remains the European leader in attracting FDI projects because of ongoing reinvestment by existing investors in the stock of FDI it has built up through being the leading destination over a number of years. But market leadership in new projects has moved to Germany. The new projects recorded in the UK for 2012 declined by 8.8% from the previous year to 455 projects, slipping back almost to the 2008 levels of 449. In contrast, in 2012, Germany recorded a rise of 11% in new projects, to 488 — a larger number than the UK achieved in 6 of the past 10 years. To put these figures in context, the UK is still performing relatively well in new projects in Europe-wide terms, with the UK's total of 455 new projects in 2012 putting it well ahead of third-placed France's 278. However, Germany's growing strength in attracting new projects reinforces the likelihood that it will overtake the UK in overall FDI projects within the next few years.

An analysis of new projects by type of activity casts an interesting light on Germany's strong performance in attracting new investors. The UK has traditionally led Germany in securing new investments in Sales and marketing operations, with both countries seeing year-on-year increases in these projects between 2008 and 2011. However, in 2012, new Sales and marketing investments into the UK fell back by 19% to 321, while those into Germany rose by 10% to 380. This suggests that Germany is now challenging the UK's long-standing positioning as global companies' primary gateway to Europe. It seems that international businesses seeking to establish themselves three-quarters or widen their reach three-quarters in Europe by setting up a new Sales and marketing hub, are increasingly taking the view that Germany is the place to be.

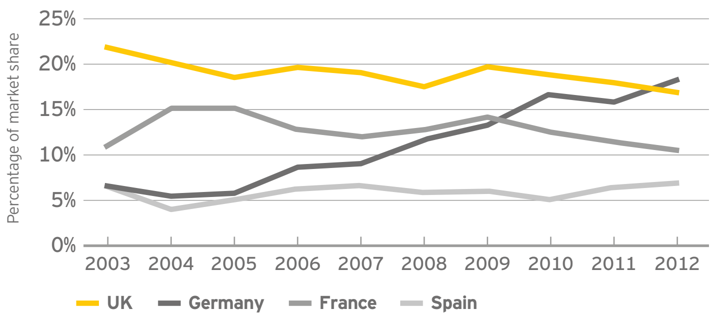
More generally, Germany has been doing increasingly well at securing new projects from the service sector, and has edged up in some of the manufacturing sectors over the past five years. Germany is also now securing more new investors from the UK, Switzerland, Italy, Spain, Japan, Turkey and Austria than at any time since 2007.

European FDI market share of the top four recipients



Source: Ernst & Young's European Investment Monitor 2013

Market share of annual new FDI projects secured by Europe's four largest recipients over the past 10 years



Source: Ernst & Young's European Investment Monitor 2013

English regions suffer as London continues to dominate

FDI projects into the UK regions and UK market share of projects, 2012

Region	Projects 2012	Share of UK FDI projects	Change on 2011
London	313	45%	-4%
Scotland	76	11%	49%
South East	55	8%	-34%
West Midlands	50	7%	32%
North West	44	6%	13%
Wales	31	4%	244%
Northern Ireland	29	4%	71%
North East	26	4%	8%
Yorkshire	21	3%	5%
East of England	20	3%	-23%
East Midlands	17	2%	-15%
South West	15	2%	-40%

Source: Ernst & Young's European Investment Monitor 2013

Market share of four largest recipients of FDI in the UK

Source: Ernst & Young's European Investment Monitor 2013

Against the backdrop of the UK's overall rise of 2.6% in FDI projects in 2012, the number going into 2011's two biggest UK regions fell back – with projects in London slipping by 4%, and those in South-Eastern England slumping by more than a third. Scotland, Wales and Northern Ireland took up the slack, with dramatic rises of 49%, 244% and 71% respectively in their numbers of projects. With 2012 being the year of their devolved administrations, Scotland recorded 76 projects, its highest total for 16 years; Wales recorded 31 projects, its highest for five years; and Northern Ireland recorded 29 projects, its highest for 14 years.

"It appears that the abolition of the RDAs may be starting to undermine not only the regions in which they operated, but also the UK's ability to sustain its overall leading position for inward investment."

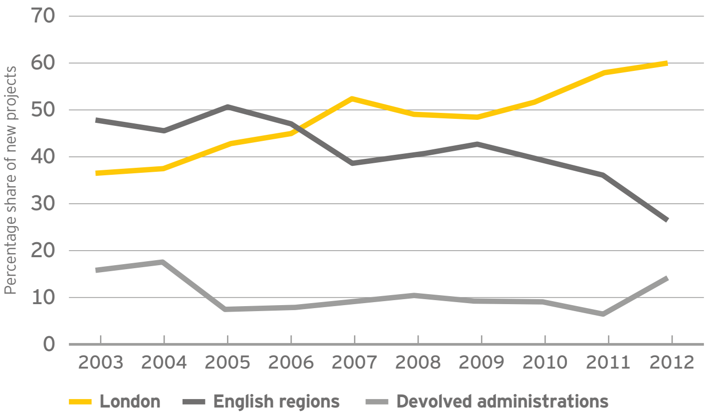
These sparkling performances in 2012 by Scotland, Wales and Northern Ireland were in stark contrast to most of the English regions, which are now represented by a series of LEPs in inward investment promotion, rather than the now-defunct RDAs. Of the improved performers in 2012 among the English regions – the West Midlands, North West, North East and Yorkshire – none recorded a higher number of projects than in 2010. In fact, a comparison between the numbers of FDI projects in the English regions (excluding London) in 2010 and 2012 shows a decline of 24%.

When reinvestments in existing projects are stripped out, the position on new projects is even more pronounced. In 2012, the English regions as a whole outside London secured their smallest total of new investment projects on record, at just 122. Comparing 2009 – the last year before the announcement of the closure of the RDAs – with 2012, new projects secured by the English regions have declined by 40%.

A further analysis of the pan-European findings underlines the UK's heavy reliance on London's attractiveness to foreign investors. Looking at the number of new projects attracted in 2012 by leading regions in each country, London secured the highest proportion (60%) of the national total of any of the top eight destinations for new investments. In contrast, Germany's leading destination for new projects – Dusseldorf – attracted only 16% of new FDI projects in that country. Indeed, the position of London is now so pronounced that if the UK were to be considered without London, it would be placed joint third alongside Spain in attracting new investment, with 183 new investment projects secured.

Taken together, the findings on the declining performance of the English regions outside London – especially in attracting new projects – raise further doubts over the UK's ability to retain its lead in European FDI. It appears that the abolition of the RDAs may be starting to undermine not only the regions in which they operated, but also the UK's ability to sustain its overall leading position for inward investment – can the UK remain a leader when London is so dominant in projects into England?

Market share of new FDI projects reported in 2012 in London; devolved administrations (Scotland, Wales and Northern Ireland); and the English regions

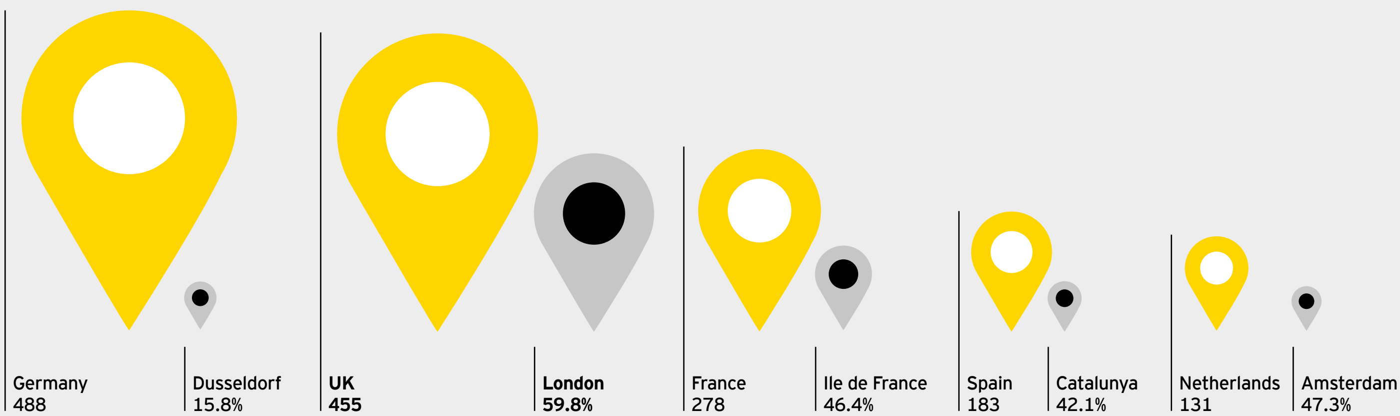


Source: Ernst & Young's European Investment Monitor 2013

London secured the highest proportion (60%) of the national total of any of the top eight destinations for new investments.

Share held by the leading region in each of the top 10 countries for new FDI projects across Europe

Country	New projects	Leading region	Percentage of country
Germany	488	Dusseldorf	15.8
UK	455	London	59.8
France	278	Ile de France	46.4
Spain	183	Catalunya	42.1
Netherlands	131	Amsterdam	47.3
Belgium	107	Brussels	32.7
Poland	100	Warsaw	28.0
Russia	100	Moscow	40.0
Turkey	87	Istanbul	65.5
Finland	77	Helsinki	84.4



The US remains the largest FDI investor into Europe …

As in previous years, the main source of FDI projects at a pan-European level was once again the US. During 2012, US-originated projects into Europe rose by 2% from 2011, and accounted for over a quarter of all projects (28%). With the other top five sources of inward investment in Europe – Germany, the UK, France and Switzerland – all recording a fall in project numbers, the US saw a rise both in its volume of projects and European market share.

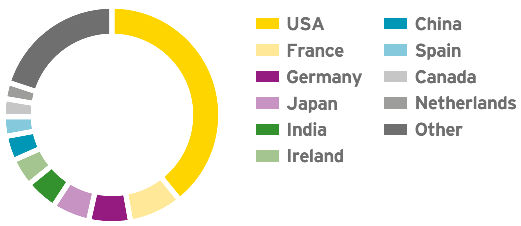
Meanwhile, the pattern of Asian investment into Europe – which remains lower than that from the US or cross-border within Europe – was mixed, with projects from Japan rising by 15%, while those from China declined by 13%. Projects from India fell back slightly from 2011, taking them down to a level 25% below their peak in 2008, possibly reflecting the recent slowdown in Indian economic growth to its slowest rate for a decade.

Once again, Germany was the leading destination for Chinese investments. As China focuses more on growing and developing its domestic economy, it is looking to import capital goods such as machinery – a need that plays to the "sweet spot" of Germany's industrial and engineering strengths. The accompanying information panel examines FDI from the BRIC countries (Brazil, Russia, India and China) into Europe, and specifically the UK. Alongside rising numbers of investments from China, Germany is also picking up a growing number of projects from another fast-emerging FDI source, Turkey. This appears to reflect Turkey's rapid economic development, and its long-standing social links with Germany as embodied by the substantial community of Turkish "Gästarbeiter."

Origin of investment into Europe in 2011, 2012 and percentage change

	2011	2012	Percentage change
USA	1,038	1,056	1.7
Germany	426	415	-2.6
United Kingdom	296	258	-12.8
France	222	218	-1.8
Switzerland	189	185	-2.1
Japan	158	182	15.2
China	144	125	-13.2
Netherlands	141	112	-20.6
Spain	82	110	34.1
Sweden	100	108	8.0

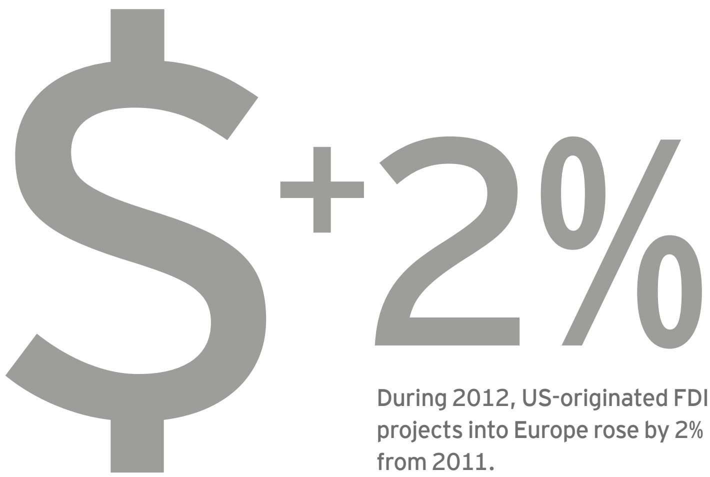
Origin of investment projects into UK 2012



Source: Ernst & Young's European Investment Monitor 2013

… and the UK remains the US's European destination of choice

The UK has traditionally been the number one recipient of US investment each year – and this pattern continued in 2012, with the UK receiving 26% of the US's rising number of projects in Europe. The UK was also the leading recipient of Japanese and French investments in 2012, recovering the positions that Germany took briefly for the first time in 2011. French projects into the UK leapt by 87%, to see France overtake Germany as the UK's second biggest source globally, while Germany slipped into third place among the UK's FDI providers, with its number of UK projects falling by 31% from 2011. The strong rise in UK projects from France was driven by increases in sectors including business services (from 6 projects in 2011 to 13 in 2012), other transport (from 2 to 10) and software (from 7 to 9). France also originated UK projects in several sectors in 2012, where it had produced none the year before, including machinery and equipment, oil and gas and pharmaceuticals. Meanwhile, German FDI projects within Europe are most likely to go to France, while UK FDI into other European countries is most likely to go to Germany.



During 2012, US-originated FDI projects into Europe rose by 2% from 2011.

The UK continues to rely heavily on the US for FDI projects

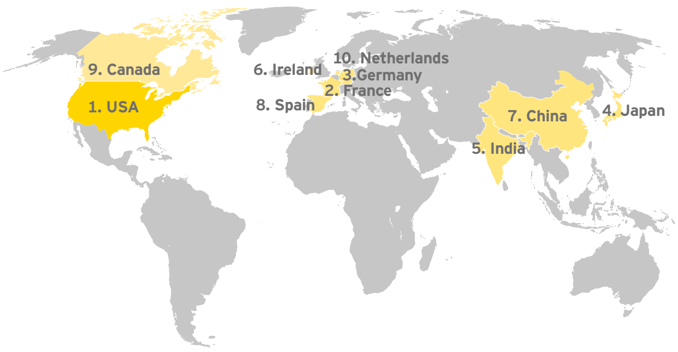
The leading position that the UK holds in European FDI projects is largely a result of its strong and established relationship with the US. The US represented 39% of all investment projects into the UK in 2012, making it the UK's biggest source of FDI projects by a wide margin. In fact, the next nine most important origins put together made up a further 41% of UK investment projects, only just exceeding the number from the US alone. While the Commonwealth countries of Canada and India are in the UK's top 10 origins of investment, they do not feature in the top 10 sources across Europe as a whole. The same is true of Ireland.

With the US currently in an upswing and recovering faster than both the UK and the Eurozone, the UK's relatively heavy reliance on US projects should not be seen as a weakness — sustaining the flow of FDI from the US should remain an important priority. The US retained its dominant position as the main source of UK FDI in 2012 despite a small decline in its UK projects compared with 2011. This was offset by a dramatic rebound in projects from France (up 87%) and Japan (up 82%), as project numbers from these countries recovered from lower-than-usual levels in 2011. There was also strong growth from Ireland and an uptick from Spain, possibly reflecting the tendency we mentioned earlier for companies in stressed euro states to spread their risks across Europe.

39%

The US represented 39% of all investment projects into the UK in 2012, making it the UK's biggest source of FDI projects by a wide margin.

Top 10 origins of UK investment in 2012



Source: Ernst & Young's European Investment Monitor 2013

Top 10 countries of origin for European FDI projects and their leading destinations, 2012

Country of origin	Leading recipient	Recipient's share of investors projects	UK share of investors projects
USA	UK	26%	N/a
Germany	France	15%	10%
UK	Germany	21%	N/a
France	UK	26%	N/a
Switzerland	Germany	49%	7%
Japan	UK	22%	N/a
China	Germany	38%	22%
Sweden	Finland	12%	8%
Spain	France	26%	19%
Italy	France	21%	8%

Source: Ernst & Young's European Investment Monitor 2013

Top 10 origins of UK investment in 2012 and the change between 2011 and 2012

Countries of origin	2011 projects	2012 projects	Percentage change in projects secured
USA	283	273	-3.5
France	30	56	86.7
Germany	62	43	-30.6
Japan	22	40	81.8
India	30	33	10.0
Ireland	15	30	100.0
China	22	27	22.7
Spain	19	21	10.5
Canada	21	17	-19.0
Netherlands	19	16	-15.8

Source: Ernst & Young's European Investment Monitor 2013

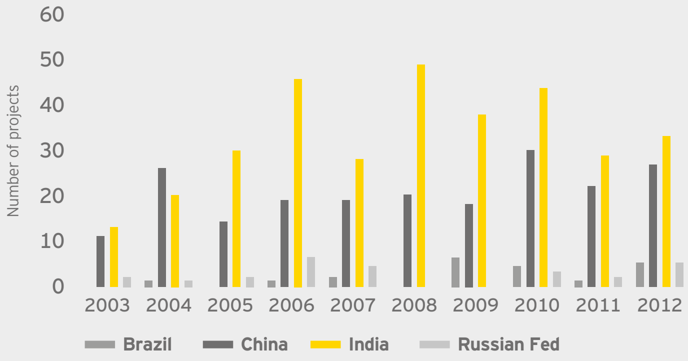
Investment into Europe from the BRICs

In 2012, the number of investment projects in Europe originating from the BRIC economies fell by 9%, with each of China, India and Russia recording a fall in total projects. Conversely, the number of projects from Brazil doubled to 16, which represents its highest number of projects recorded to date, though still small compared with the other BRICs.

Of the overall projects from BRIC economies in 2012, the UK secured a higher number from all four than in 2011 – albeit with projects from China and India still below the levels it achieved in 2010. Investment into the UK from China increased by 23% to 27 projects. However, the UK remains behind Germany in attracting BRIC projects, especially from China. During 2012, Germany secured a dominant 38% of all Chinese investment projects into Europe, a share that seems to reflect the strong commercial and trading relationships that Germany has built up in China over many years.

Looking across the BRICs' FDI projects into Europe, it is interesting to note that China is the only member of the BRICs whose volume of investments into Germany has accelerated sharply since 2007. The UK secures the highest market share of investments from India, and historically Spain has attracted the largest proportion of Brazilian projects, which have been relatively limited in number to date.

Investment into the UK from the BRICs over the past 10 years



Source: Ernst & Young's European Investment Monitor 2013

"China is the only member of the BRICs whose volume of investments into Germany has accelerated sharply since 2007."

Investment into Europe from BRIC economies over the past 10 years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	18	49	44	59	53	88	114	117	144	125
India	17	41	49	78	67	99	71	94	78	74
Russia	11	17	18	25	34	22	28	39	46	37
Brazil	2	11	4	6	10	16	8	15	8	16

Source: Ernst & Young's European Investment Monitor 2013

Interview

Opportunity for the UK: rising outbound FDI flows from emerging markets

Stephen Phillips
Chief Executive, China-Britain Business Council

China has been a major driver of global economic growth for some time. However, Chinese outbound investment has only recently begun to accelerate rapidly, with more than US$50 billion invested per annum since 2008, according to United Nations Conference on Trade and Development (UNCTAD). There is no doubt that, for Chinese companies looking to expand internationally, the UK remains one of the most attractive countries for overseas investment. But global FDI is a competitive landscape, with Chinese companies being courted by suitors from around the world.

> "For Chinese companies looking to expand internationally, the UK remains one of the most attractive countries."

The UK is viewed very positively for its strategic location, deep talent pool, and strengths in advanced engineering, technologies and services, as well as its world-class legal system. However, investing in the UK is not without its challenges. As we seek to attract even more Chinese investment, we need to appreciate that the UK's environment is as alien to most Chinese companies as the Chinese marketplace is to most British companies. It is important that both the public and private sector help prospective investors gain a better understanding of the practical issues they need to address in order to thrive in the UK. And we need to overcome the perception that getting visas to the UK is problematic, to ensure that this does not act as an impediment to investment.

The good news is that there are many encouraging success stories. The main drivers for Chinese investment have been the opportunities both to access the UK market and the potential to acquire brands, technology innovation and know-how. Additionally, we have recently seen a number of notable financial investments. I expect investments from China to continue, driven by all of these factors. Other industry sectors that have seen Chinese investments into the UK in recent years range from telecommunications to utilities and from consumer products to retail.

It is important that we build upon the successes to date and continue to offer a warm welcome to Chinese investors. As the influence of Chinese companies in the global marketplace continues to rise, new trade and investment opportunities will open up for those countries where Chinese businesses invest. We must ensure that the UK remains a key global destination for Chinese investment, and that the UK and British businesses are positioned as partners of choice. I am confident we can achieve this — and at CBBC we will continue to play our part in ensuring that UK-China commercial relations go from strength to strength.

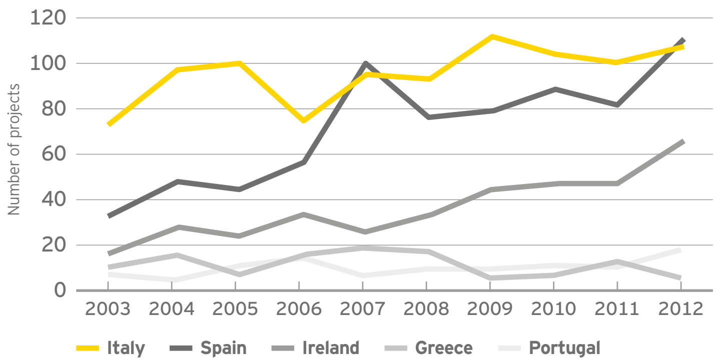
An FDI opportunity for the UK from the euro crisis?

European cross-border FDI from other European states declined during the year – although the impact was reduced by an increase in projects originating from the stressed Eurozone economies of Italy, Spain, Ireland and Portugal. Spain was especially active, with its projects in other European countries leaping by 34% in 2012. More generally, the rise in projects from fiscally challenged euro states points to a trend of companies from these countries seeking to undertake investments in other locations across Europe, in search of greater demand and reduced risk. By contrast, outbound FDI projects into other European countries from both Germany and France declined slightly in 2012, remaining in each case below the levels in 2007–08.

The rise in outbound investments from fiscally-stressed euro members in 2012 suggests that capital in these countries is behaving in a rational way, by seeking to migrate to more attractive locations where risks appear to be lower. This in turn indicates that crises, such as the one currently affecting the Eurozone, present an opportunity for the UK to promote its credentials as an FDI destination to potential investors in the countries concerned. A corresponding opportunity is that investors from elsewhere in the world may look more favorably on the UK compared with the stressed euro states, because of the perceived lower risks of UK investments.

"Investors from elsewhere in the world may look more favorably on the UK compared with the stressed euro states, because of the perceived lower risks of UK investments."

Cross-border European FDI projects originating from Portugal, Ireland, Italy, Greece and Spain (PIIGS)



Source: Ernst & Young's European Investment Monitor 2013

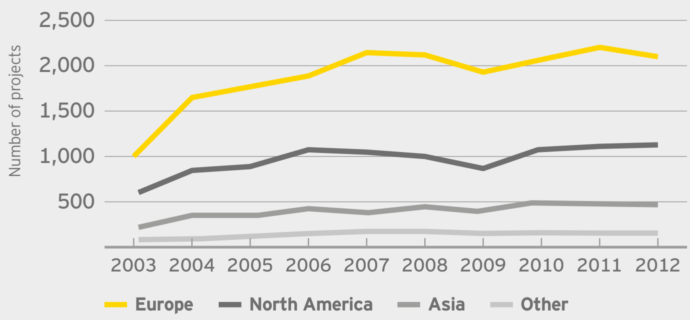
Emerging sources of FDI into Europe

The past 10 years have seen significant growth in European FDI projects from a number of sources, including emerging markets such as China and India. However, these countries aside, the list of the top 10 fastest-emerging providers of FDI is actually dominated by European countries themselves, underlining the strong growth in cross-border intra-European investment over the past decade. The UK alone generates more projects than the BRIC countries combined.

The expansion in cross-border FDI within Europe is clearly demonstrated by the analysis of the regions of origin since 2003. This shows that intra-European projects, while slightly down in 2012, are running at almost twice the level of those originating from the second-biggest regional source, North America.

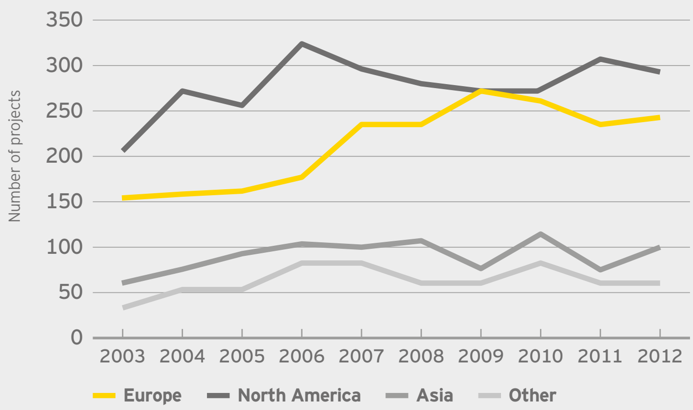
Interestingly, the regional origins of FDI projects into the UK are quite different from those at the European level, with investments from North America having dominated throughout the past decade, apart from a two-year period in 2009 – 10 when European FDI projects caught up. While cross-border European investment into the UK has risen, particularly since 2006, the US remains the most important contributor of UK FDI projects by a significant margin.

Origin of European FDI projects by global region



Source: Ernst & Young's European Investment Monitor 2013

Origin of UK FDI projects by global region



Source: Ernst & Young's European Investment Monitor 2013

Business services FDI continues to rise across Europe

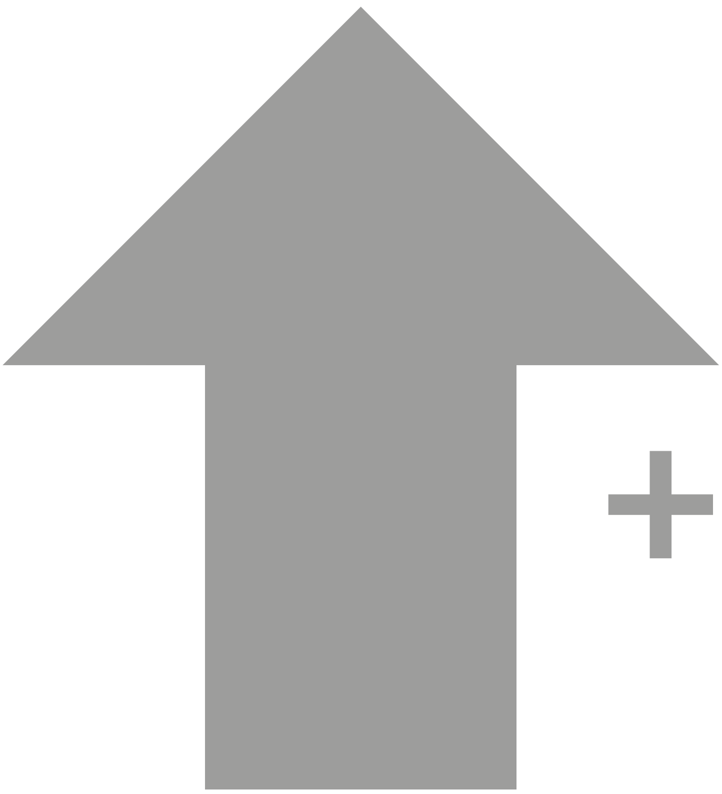
As in 2011, the top three sectors generating FDI projects at a pan-European level in 2012 were business services, software, and machinery and equipment. Business services saw its European projects rise by 5% to 699, accounting for almost one-fifth of all FDI projects in Europe during the year — the sector's highest level on record. Software projects remained the second-largest sector for European FDI, despite slipping by 7% from 2011, while projects from machinery and equipment held steady.

Other transport services — typically logistics projects — jumped by 10% to become the fourth-biggest sector, reflecting the shift towards online retail. In contrast, investments in renewable energy projects slumped by 30% from 2011 — the sector's second consecutive drop — and financial services projects continued their recent decline, falling to their lowest level for eight years.

Europe's 10 most important FDI sectors in 2012, with leading recipient and market shares

Sectors	Leading recipient	Market share of the recipient	UK market share (if not leading recipient)
Business services	UK	26%	N/a
Software	UK	30%	N/a
Machinery and equipment	Germany	28%	15%
Other transport services	France	20%	13%
Automotive components	Germany	13%	11%
Chemicals	Germany	19%	8%
Electronics	Germany	30%	14%
Food	France	18%	17%
Financial intermediation	UK	19%	N/a
Plastic and rubber	France	16%	12%

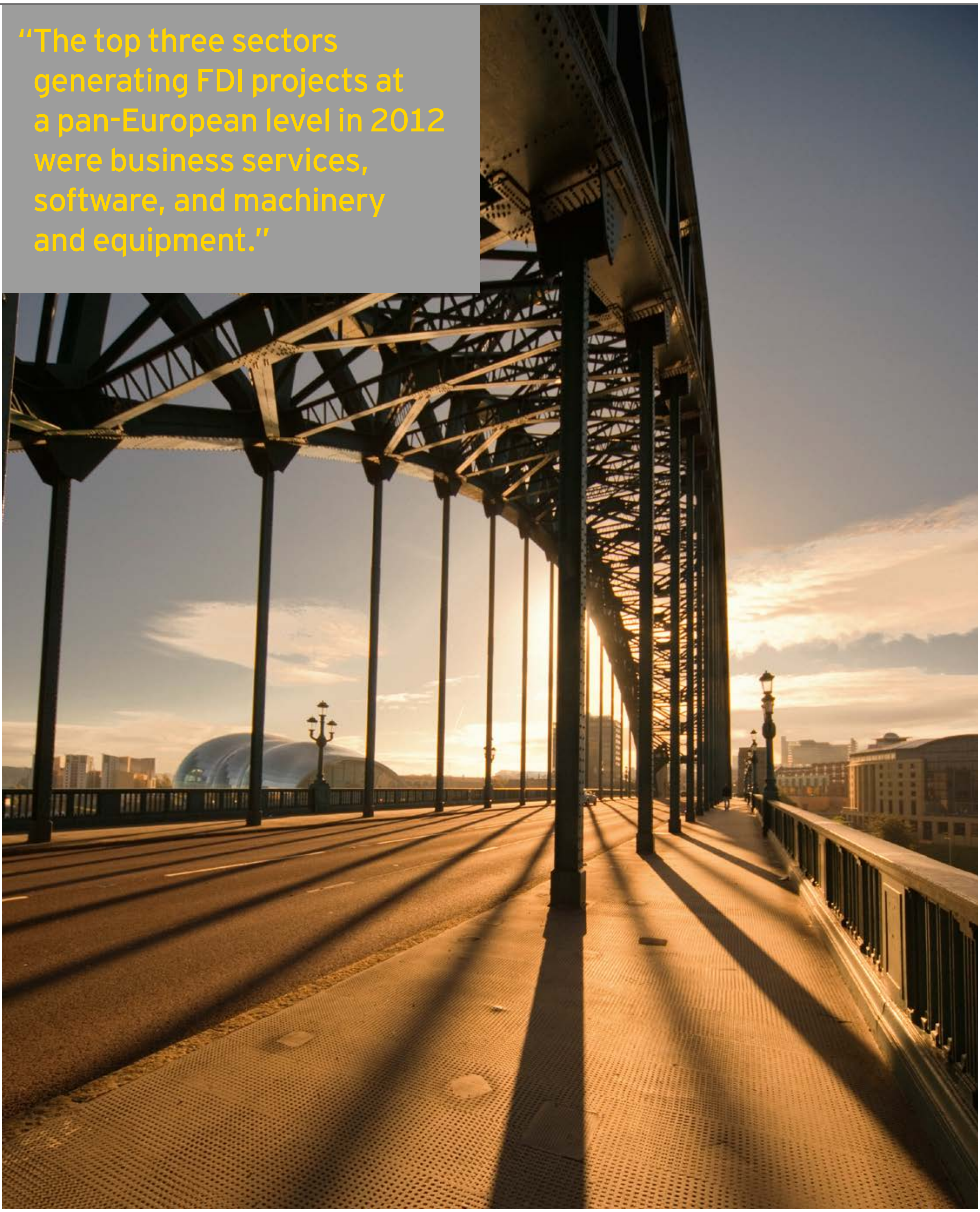
Source: Ernst & Young's European Investment Monitor 2013



+5%

Business services saw its European FDI projects rise by 5% to 699.

"The top three sectors generating FDI projects at a pan-European level in 2012 were business services, software, and machinery and equipment."



The UK is very reliant on business services and software for its FDI projects ...

The UK is the leading FDI destination for 3 of the top 10 sectors investing in Europe – and these include the top 2, business services and software. These two sectors accounted for 43% of all UK FDI projects in 2012, against 29% across Europe as a whole. However, while the UK increased its Europe-wide market share of business services projects, its proportion of total European software projects fell back, with the 18% drop in UK software investments outpacing the sector's 7% decline at a European level. Similarly, the UK's share of Europe's shrinking financial services FDI market also declined.

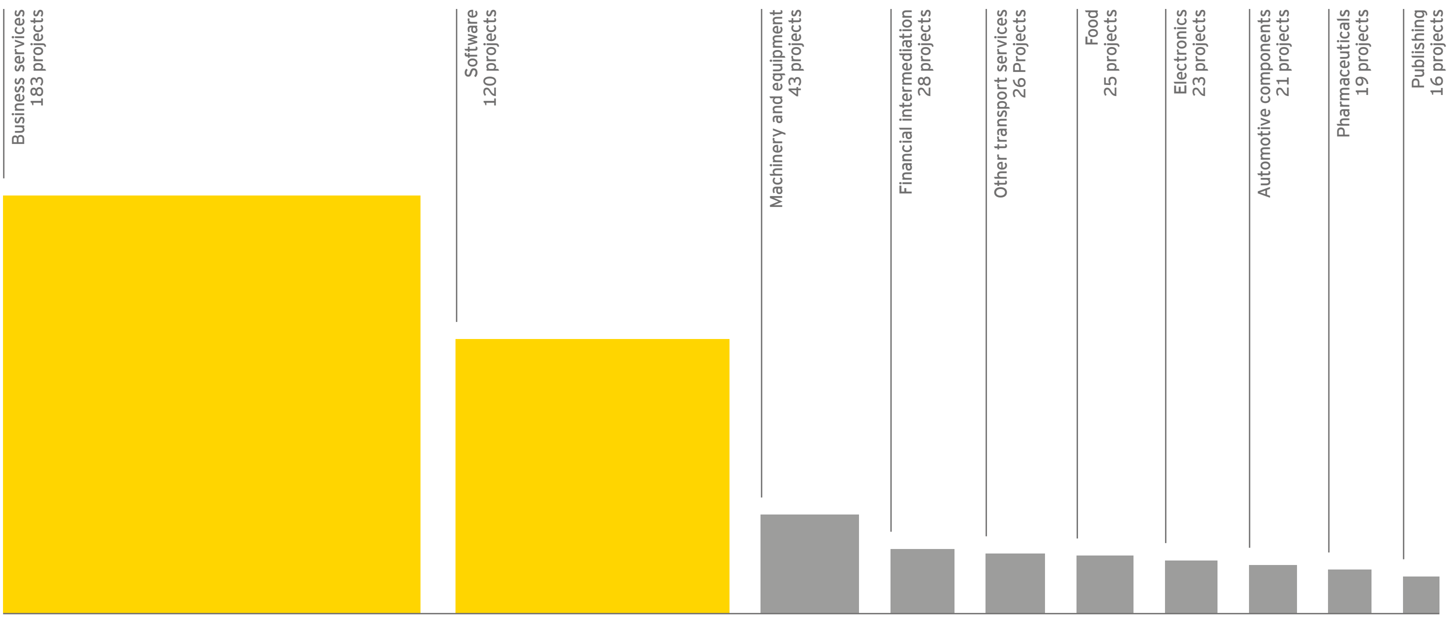
As we noted last year, the ongoing reduction in financial services projects is a concern for the UK, given the country's traditional strength in this sector. However, in 2012, the impact of the decline in financial services FDI was more than offset by growth in projects from other sectors. As in 2011, the UK remained the leading recipient of business services, software, and financial services FDI in 2012, while Germany was the leading recipient of machinery and equipment, automotive components, chemicals, electronics and electrical projects. France was the leading recipient of other transport services, food and plastics, and rubber investments.

Chemicals FDI projects in Europe leapt by 22% in 2012, but the UK largely missed out on this growth. In 2012, the UK remained in fifth position – the same as 2011 – for projects from the chemicals sector, which ranks sixth for FDI projects across Europe as a whole but does not even make the UK's top 10. This underlines the decline in the UK's attractiveness for chemicals investments: in 1997, 1998 and 2000, the UK was Europe's leading recipient of chemicals projects.

The 10 most important sectors in generating investment into the UK in 2012

Sectors	2012 projects	Percentage share of 2012 projects	Percentage change on 2011
Business services	183	26%	14%
Software	120	17%	-18%
Machinery and equipment	43	6%	10%
Financial intermediation	28	4%	-18%
Other transport services	26	4%	271%
Food	25	4%	-14%
Electronics	23	3%	28%
Automotive components	21	3%	31%
Pharmaceuticals	19	3%	90%
Publishing	16	2%	-11%

Source: Ernst & Young's European Investment Monitor 2013



... and lags in manufacturing FDI

The findings also suggest that the UK is continuing to struggle to attract foreign-owned manufacturers to locate new projects here. The UK now secures only 12% of all manufacturing investments in Europe, and just 7% of new manufacturing FDI projects. More positively, the UK attracts 23% of all European research and development (R&D) FDI projects, and 22% of new ones.

The UK's continued difficulty in attracting new manufacturing FDI projects is in stark contrast to Germany. While Russia led the way in securing new manufacturing projects in 2012, Germany – despite being a higher-cost Western European economy – was still able to attract the joint second highest number, at 33 projects, level with Serbia. Poland came fourth. In 2003, by comparison, the UK was alongside Russia in holding a dominant position in attracting new manufacturing FDI across Europe.

Interestingly, despite the creation of 1,500 FDI jobs in the UK by Jaguar Land Rover in 2012, an analysis of FDI manufacturing jobs recorded across Europe over the past 10 years shows that the UK does not even rank in the top six recipients. Instead, the UK ranks seventh, narrowly behind Spain.

7%

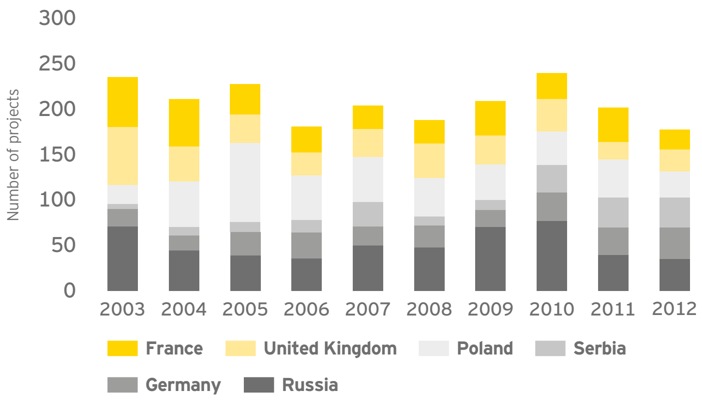
An analysis by the type of FDI project shows that the UK now secures only 7% of new manufacturing FDI projects.

Types of investment into the UK and the UK's European market share for each type

	All projects		New projects	
Projects	**Projects**	**Market share**	**Projects**	**Market share**
Manufacturing	121	12%	24	7%
HQ	29	17%	18	16%
Logistics	41	17%	28	16%
R&D	54	23%	32	22%
Sales and marketing	394	20%	321	18%
Other	58	24%	38	24%

Source: Ernst & Young's European Investment Monitor 2013

New manufacturing projects (six leading countries)



Source: Ernst & Young's European Investment Monitor 2013

FDI jobs rise in the UK — but slower than elsewhere in Europe

Looking more widely at the jobs generated by FDI into Europe in 2012, it is important to note that less emphasis is generally placed on the EIM employment totals because the jobs impact is not recorded for every project. In 2012, for example, employment data was only released or available for 44% of the reported projects. However, the partial numbers that are in the public domain do provide a useful guide to the overall trends.

The EIM statistics show that employment from FDI increased in 2012 from 2011. However, a longer-term perspective shows that employment from FDI tends to vary year on year rather than increasing steadily. One factor is that service sector projects tend to be smaller in terms of jobs. So, as the proportion of service sector FDI projects in Europe has increased with the migration of manufacturing to lower-cost locations in regions such as Asia, the average level of employment per FDI project in Europe has declined.

Europe's top 10 FDI locations for employment differ significantly from the ranking for numbers of projects, since the employment rankings include a number of lower labor-cost economies that are able to secure labor-intensive projects. Despite this effect, the UK remained the leading recipient of FDI jobs in 2012, with new FDI-driven employment in the UK rising by 1.4% during the year to its highest level since 2004. However, this marginal increase lagged behind the growth across Europe. As a result, the UK's market share of European jobs generated by FDI fell by 1% to 18% — albeit still well above the lows of 13% and 14% recorded between 2004 and 2008.

In terms of sectors, automotive FDI projects traditionally create the largest number of jobs, and 2012 was no exception, with 34,000 FDI jobs created across Europe by automotive component companies — roughly a fifth of total recorded FDI employment generation. However, the UK's strength in service sector FDI and, in particular, its high market share in business services projects, resulted in the UK gaining more employment from business services than from the typically more labor-intensive manufacturing industries.

The leading UK region for employment creation from FDI in 2012 was the North West — a statistic that was heavily influenced by the creation of 1,500 jobs by Indian-owned Jaguar Land Rover at Halewood, one of the top 10 FDI projects across Europe during the year. Scotland was the second-largest recipient of FDI employment in the UK, albeit with a 17% fall in employment from FDI that saw it lose the top position it held in 2011.

1.4%

The UK remained the leading recipient of FDI jobs in 2012, with new FDI-driven employment in the UK rising by 1.4%.

Sectors generating the largest number of FDI jobs into the UK in 2012

Jobs	Sector
6,911	Business services
3,536	Machinery and equipment
3,393	Automotive assembly
2,016	Software
1,856	Food
1,785	Retail
1,409	Automotive components
1,227	Electronics
1,212	Air transport
1,016	Other transport equipment

Europe's largest recipients of FDI-generated employment in 2012

Countries	2011 employment	2012 employment	Percentage change
UK	29,888	30,311	1.4
Russia	8,362	13,356	59.7
Poland	7,838	13,111	67.3
Germany	17,276	12,508	-27.6
France	13,164	10,542	-19.9
Serbia	13,479	10,302	-23.6
Turkey	7,295	10,146	39.1
Spain	9,205	10,114	9.9
Ireland	5,373	8,898	65.6
Romania	5,985	7,114	18.9

Source: Ernst & Young's European Investment Monitor 2013

Locations in the UK securing the highest level of employment

Region	Jobs created
North West	5,572
Scotland	4,867
London	4,018
West Midlands	2,973
North East	2,938
East Midlands	2,180
Wales	2,051
Northern Ireland	1,786
South East	1,783
South West	947
East of England	816
Yorkshire	380

Source: Ernst & Young's European Investment Monitor 2013

Perceptions

of the UK in 2012

As this report has described, the EIM for 2012 confirms that the UK has retained its position as the top destination for FDI into Europe. However, the figures also show that — for the first time — the UK has lost its lead to Germany in new FDI projects, and that current trends suggest Germany may well overtake the UK in overall projects within the next few years. So the UK faces significant challenges in trying to defend its long-standing lead in European FDI. To do this successfully, it needs to understand which of its attributes positively attract overseas-based companies to come and invest here — and which attributes are most likely to make business decision-makers look elsewhere.

To help build this understanding, interviews were carried out with over 200 international companies on their UK investments and economic experiences to date, their perceptions of the UK as an investment environment and their expectations for the future. At the same time, we conducted a deeper investigation into the views of Asian investors, by posing the same questions to a separate, specially-convened sample of more than 100 companies based across the Asia Pacific region.

52%

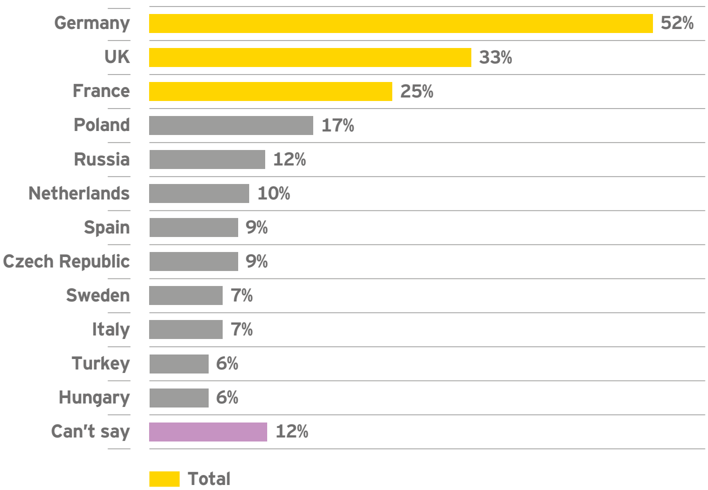
Of our sample of more than 200 investors worldwide, over half cited Germany among their top three countries in Europe for investment projects over the next three years.

The investor view of the UK: second in Europe – behind Germany

So, how do international investors from countries across the world perceive the UK's relative attractiveness as an investment destination compared with other locations in Europe? Our findings on this question confirm the UK's strong position in attracting FDI – but also underline the competitive threat that Germany poses to the UK's lead in European projects. Of our sample of more than 200 investors worldwide, exactly one-third rank the UK among their top three countries in Europe for investment projects over the next three years. But this puts the UK second behind Germany, with more than half of respondents, 52%, citing Germany in their top three, and a quarter voting for France. Interestingly, this top three of Germany, the UK and France is the same as the EIM FDI ranking for new projects attracted into Europe 2012. A further point to note is that – as in previous years – existing investors in the UK tend to be more positive about its attractiveness, with 37% of companies established here rating the UK among the most attractive European destinations, against 25% of those not established here.

Our sample of more than 100 Asian companies are even more positive about the UK, with 41% putting the UK in their top three FDI destinations in Europe. However, they are also more attracted than investors globally by Germany (61%) and France (38%) – with the result that the UK again ranks second in terms of attractiveness, behind Germany and only narrowly ahead of France. In general, our Asian respondents focus more heavily on these three top markets, with a wide gap before Poland in fourth place. Also, while Russia ranks fifth in Europe among investors globally with a healthy 12% score, Asian companies do not even rank it in their top 11 European destinations.

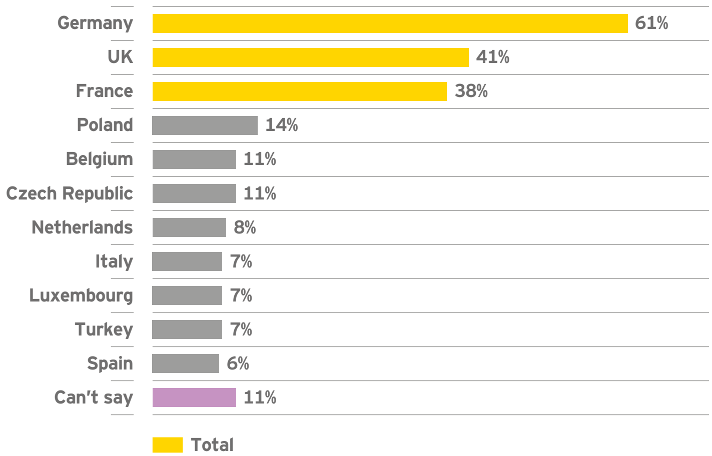
Most attractive European countries in the next three years of investment projects, as ranked by existing and potential UK investors worldwide



Source: Ernst & Young's *2013 UK attractiveness survey*

Interviewees were asked to provide three answers: first position, second position, third positions

Most attractive European countries in the next three years of investment projects, as ranked by existing and potential UK investors based in Asia



Source: Ernst & Young's *2013 UK attractiveness survey*

Interviewees were asked to provide three answers: first position, second position, third positions

The UK's main attractions to foreign investors ...

The six aspects of the UK that foreign-based companies consider most attractive from an investment location perspective are: its "quality of life, diversity, cultural aspects and language," with 91% rating this criterion as very attractive or fairly attractive; "technology and telecommunications infrastructure" (89%); the "stability and transparency of the political, legal and regulatory environment" (84%); the "entrepreneurial culture and entrepreneurship" (also 84%); the "stability of the social climate" (83%); and "education in trade and academic disciplines" (80%).

The top three factors are unchanged from the previous year, with "quality of life" rising by 3% to stay in first place, and "technology and telecommunications infrastructure" up by 4% to take second place from "political stability." Other factors that show significant increases in attractiveness this year are the UK's "entrepreneurial culture" (up from 76% in 2011 to 84% in 2012); "transport and logistics infrastructure" (73% to 81%); and "local labor skills level" (75% to 80%).

However, the biggest increases in relative terms are in investors' assessments of the attractiveness of the UK's "labor costs" (leaping from 48% to 63%) and "corporate taxation" (rising from 53% to 61%). The fact that foreign investors' perceptions of the UK's labor skills, employment costs, transport infrastructure and corporate taxation have all improved in the past year must be seen as a very positive development, especially since these are all areas in which the UK is sometimes depicted as struggling against its international competitors.

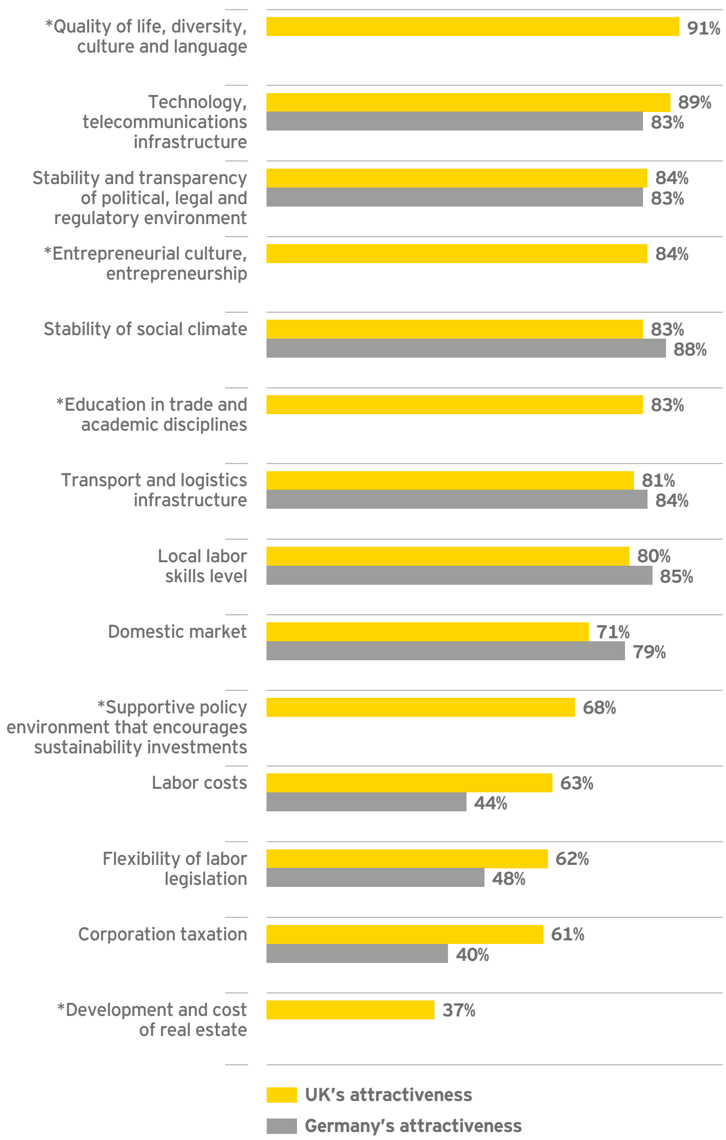
Top three aspects of the UK

1 Quality of life, diversity, culture and language

2 Technology and telecommunications infrastructure

3 Stability and transparency of the political, legal and regulatory environment

The attractiveness of different aspects of the UK and Germany for existing and potential investors



Sources: Ernst & Young's *2013 UK attractiveness survey*; Ernst & Young's *2013 Germany attractiveness survey*

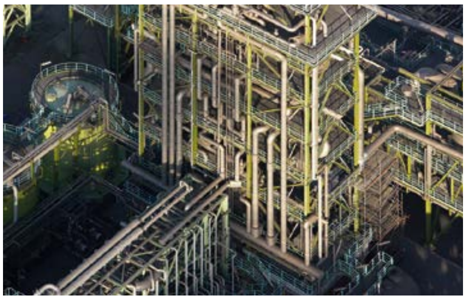
*Aspects not featured in Ernst & Young's *2013 Germany attractiveness survey*

... contrast with Germany's

Given Germany's emergence as the UK's main competitor for leadership in European FDI, it is interesting to compare and contrast the reasons why investors find the UK attractive with those that encourage them to choose Germany. Drawing on Ernst & Young's parallel research study into Germany's attractiveness, it is interesting to note that the UK generally scores strongly on areas where investors find it attractive, registering ratings of more than 80% on more factors than Germany. Having said that, the top three attributes that investors find most attractive about Germany – its "stability of social climate" (88%), "local labor skills level" (85%), and "transport and logistics infrastructure" (84%) – all rank well down the list for the UK, at fifth, eighth and seventh respectively. Germany's domestic market is also more highly valued than the UK's by FDI providers, at 79% for Germany and 71% for the UK. However, while 63% of investors rate the UK's labor costs as attractive, only 44% say this about Germany.

Given that the EIM FDI figures show that Germany overtook the UK for the first time in 2012 in new projects, it is also informative to look at how international companies not established in Germany perceive its attractiveness. As highlighted earlier, existing investors in the UK tend to be more positive about the UK as an investment location – and an analysis of the findings in the German attractiveness study confirms that precisely the same pattern applies with Germany, with established investors being more positive. This suggests that, rather than being driven by a generally higher perception of Germany than the UK among potential investors, Germany's stronger performance in new projects is a result of Germany's most attractive features – particularly its high skills levels – being especially influential for new investors. Germany's strength in new projects may also reflect its long-term strategic efforts to build commercial relationships with new and emerging originators of FDI, such as China and Turkey.

Interestingly, when investors in Germany are asked which countries they regard as being Germany's main competitors in term of attractiveness, they look beyond Europe – pointing firstly to China as Germany's top rival (33% of respondents), secondly to the US on 15%, and only then to the UK and France, equal on 7%. This underlines the increasingly global nature of the FDI market, and may also reflect the alignment highlighted in the FDI section of this report between the German and Chinese economies, with their shared focus on manufacturing and engineering. It seems that this alignment is resulting in China being not only a growing provider of FDI to Germany, but also one of its fiercest competitors for projects from other countries.



Top three aspects of Germany

1 Stability of social climate

2 Local labor skills level

3 Transport and logistics infrastructure

Destination UK: as Chinese companies expand internationally

Wayne Zhu
CEO, Bosideng UK

When Bosideng decided to go global, we chose Europe as the place to start, and the UK — specifically London — as the best location to establish our first retail presence outside China.

There were several reasons. London is a major global commercial center as well as a fashion hub. Also, having dealt with retailers in the UK for many years, we already had a good understanding of local consumer tastes, marketing strategies and competing brands. We knew we could establish a local UK team more quickly and easily than in other countries.

We're now looking at setting up in other centers across the world, including New York. With our flagship store in place in London's West End, we'll drive expansion in the UK and Europe through online retailing and negotiating concessions in department stores.

In terms of setting up here, we've found the UK is pretty business-friendly. We have a very good relationship with UK Trade & Investment (UKTI) and London & Partners; if we have any questions, we just need to pick up the phone or send an email to get an answer.

While there's clear commitment from the top to make the UK attractive to inward investors, we have encountered some challenges. For example, we acquired our London property, a former pub, in July 2011, and set ourselves a deadline of July 2012 to complete the demolition, construction and fit-out work in time for the London Olympics.

In China, developing a seven-storey building in a year is normal. But in the UK, it's much more challenging, both in terms of coordinating and scheduling the various contractors, and also the regulatory processes involved. The local authority planning processes also took longer than we had hoped.

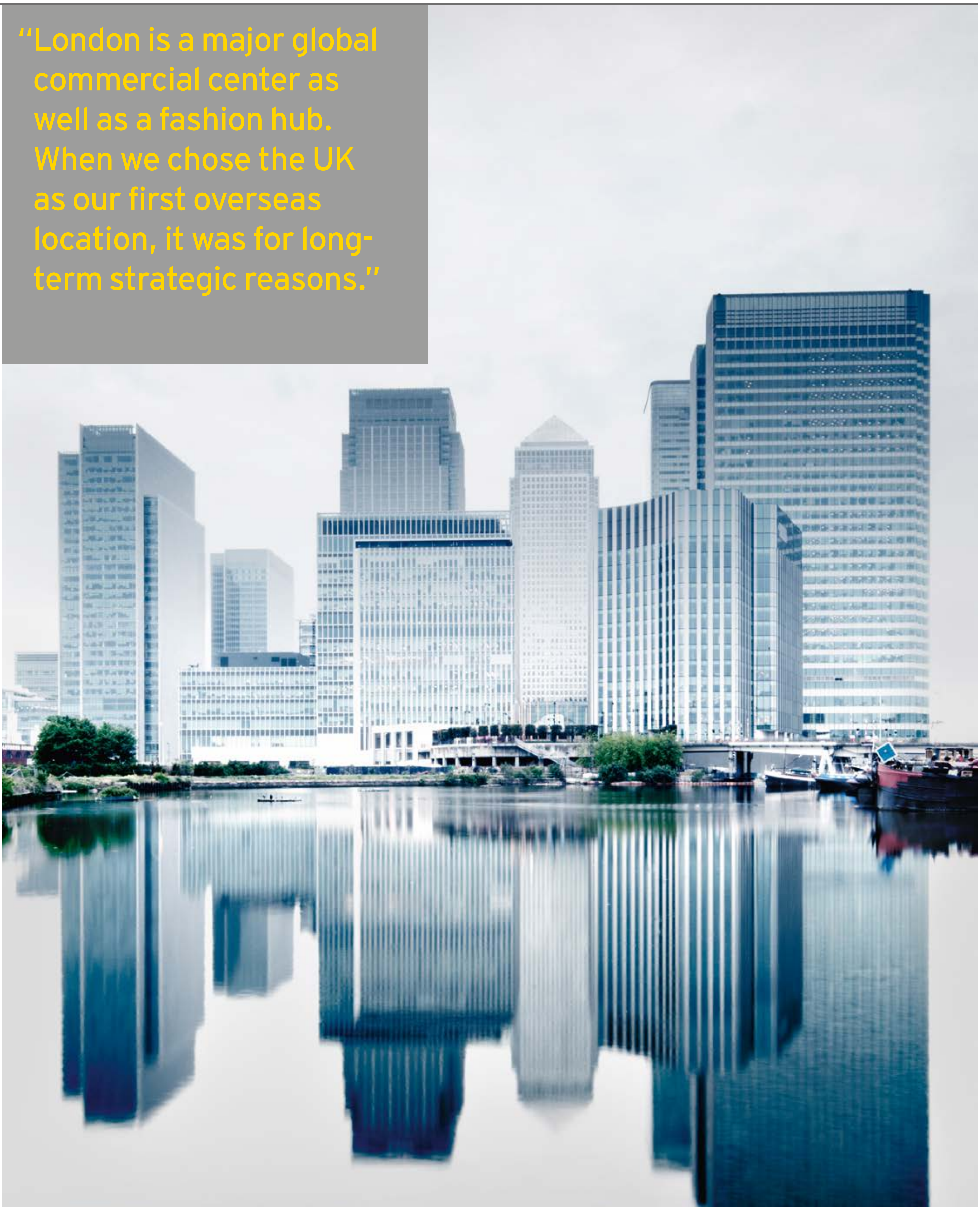
Furthermore, we found that the process of gaining work permits for Chinese employees — even though they had graduated from British universities and had work experience in the UK — was slow and very lengthy. I've heard other inward investors mention similar problems.

> "We knew we could establish a local UK team more quickly and easily than in other countries."

When we chose the UK as our first overseas location, it was for long-term strategic reasons, so the short-term economic uncertainty in Europe was not an issue. However, as the UK re-examines its relationship with the European Union, we would certainly like to see the UK remain within the EU. Like us, a lot of other Chinese firms choose the UK as a base to address Europe as a whole, and the UK being in the EU certainly helps with that. If the UK withdrew, those investors might think again.

In terms of what the UK might do to make itself more attractive, I'm glad to say that UKTI is already doing a lot to encourage Chinese investors, including preparing a useful information package. But more could be done. Having learned a lot of lessons during the two years since we came here, we would be delighted to share these with other Chinese businesses so they don't have to relearn them. The UK has great potential as an investment location and I believe that our insights could help other Chinese businesses realize that potential more quickly and easily than we did.

"London is a major global commercial center as well as a fashion hub. When we chose the UK as our first overseas location, it was for long-term strategic reasons."



Viewpoint by Ernst & Young

UK as a gateway jurisdiction for investments from Asia

Bridget Walsh
Partner, Head of UK&I Greater China
Business Services, Ernst & Young UK

The rise of the emerging markets is continuing to shift the balance of power in the global economy from West to East – and China's rapid economic growth has seen it become the world's second-largest economy. So we believe that now is the time when we will see Chinese companies really develop their global strategies to expand into international markets.

As this year's *UK attractiveness survey* shows, Asian investors rate the UK as one of their top three countries in Europe for FDI. This finding is very much in line with another recent Ernst & Young study, *Beyond Asia – China Highlights,*[1] in which we examined where and why Chinese companies are expanding internationally, and the issues they face as they do so. Our research revealed that 32% of Chinese businesses are looking to Western Europe for the best growth opportunities for the next three years, and that 40% see the main benefit of international expansion as being access to technology and innovation. There is a clear trend among Chinese companies seeking to compete through innovation, thereby moving up the value curve from China's historic position as a manufacturing powerhouse.

As China's FDI outflows continue to grow rapidly, and more Chinese companies look to establish a foothold in international markets, it is crucial for them to understand the nuances of how every market differs, particularly within Europe, where each jurisdiction has its own distinct legal system, tax laws, etc. The UK is known for its innovation, advanced R&D facilities, and open and transparent business environment. Its legal system, language, vibrant culture and role as a global financial center all play a part in attracting Chinese investors.

For these reasons, the UK has always been very competitive in attracting foreign investment. In addition, there are increasing tax reasons why investments should be routed via UK holding companies. Over the past 10 years, successive UK Governments have implemented a number of targeted legal and tax changes to improve the attractiveness of the UK as a gateway jurisdiction for investments from China into the UK and the European Union. In many ways, the UK is therefore comparable to other countries, and in certain aspects – for instance, the lack of a domestic dividend withholding tax – the UK tax system offers clear benefits over those of some other European locations. Recent amendments to the UK China Double Tax Treaty have enhanced these benefits still further.

[1] Beyond Asia – China Highlights: Strategies to support the quest for growth, Ernst & Young, China, July 2012

"Our research revealed that 32% of Chinese businesses are looking to Western Europe for the best growth opportunities for the next three years."

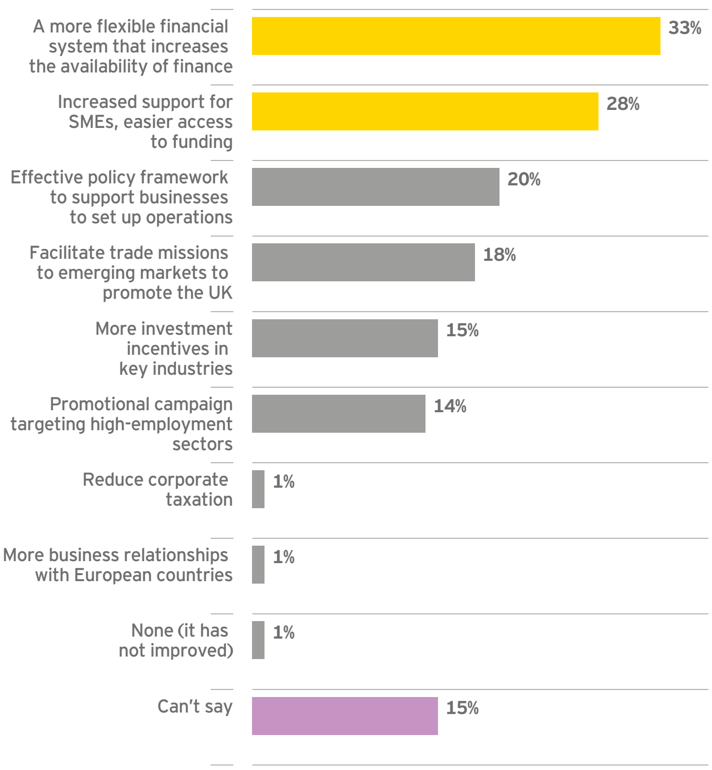
The UK raises its game in financial flexibility and support for SMEs

Irrespective of Germany's attractive qualities, the fact remains that the UK continues to attract more FDI projects than Germany – and succeeded in increasing its own market share of investments into Europe last year. Companies in our study mirror this positive tone by highlighting several ways in which they feel the UK has improved its environment for inward investment in the past year. The biggest area of improvement is "a more flexible financial system that increases the availability of finance," highlighted by one-third of respondents, followed by "increased support for SMEs, easier access to funding," cited by 28%. Interestingly, a number of the areas where investors point to improvements – notably the flexibility of the financial system and facilitating trade missions – were highlighted in last year's survey as presenting opportunities for the UK Government to target foreign investors more effectively.

Looking forward, other findings show that investors are generally optimistic about the UK's ability to keep improving its environment for FDI in the future. Nearly two-thirds of investors globally (65%) anticipate an improvement in the UK's attractiveness over the next three years, while less than a third expect the UK's attractiveness to stay the same and only 4% think the UK will decline. This result is the most positive the UK has had since 2004. However, it masks significant regional differences, with only 56% of Western European investors expecting the UK to become more attractive, against 74% in the US and 64% in our separate Asian study. Having said that, the generally strong confidence in the UK's capacity to retain and increase its attractiveness is reflected in companies' views globally on the UK's ability to weather the current economic challenges, with 88% of investors saying they believe the UK will be able to overcome the current crisis – up from 86% in 2012, and the second-highest figure in Europe, narrowly behind Germany on 92%.

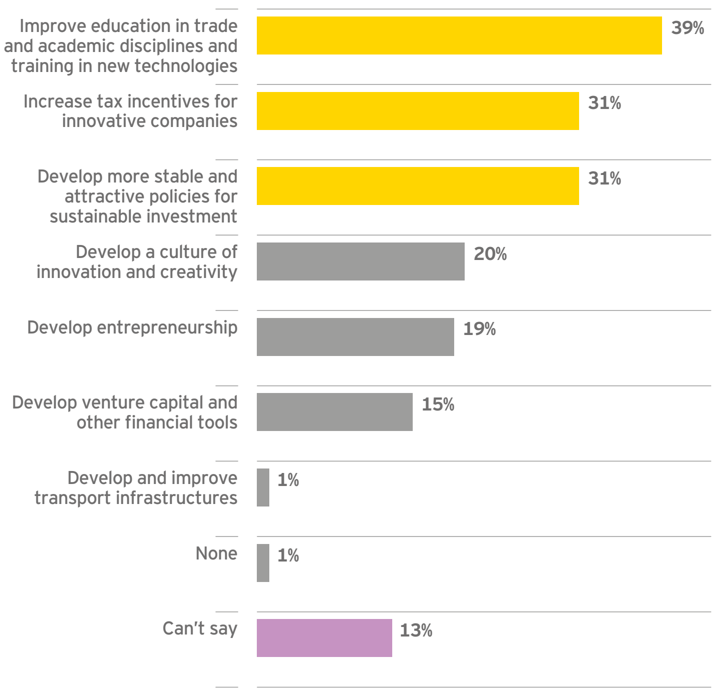
Asked what areas the UK should focus on reforming to make it a world leader in innovation, the respondents point first to "improving education in trade and academic disciplines and training in new technologies," and then – in equal second place – "increasing tax incentives for innovative companies" and "developing more stable and attractive policies for sustainable investment." The view that the UK needs to improve its skills echoes the relatively low ranking of the UK's labor skills in terms of attractiveness. The desire for skills is especially strong among established investors in the UK, 45% of whom say this should be a focus area, against only 26% of non-investors. Companies turning over less than €150 million are especially eager to see tax incentives for innovative companies, with 39% of them calling for these.

Areas in which existing and potential investors think the UK has improved its environment for inward investment in the past year



Source: Ernst & Young's *2013 UK attractiveness survey*

What are the main areas of reform to make the UK a leader in innovation? (Existing and potential investors from all parts of the world)



Source: Ernst & Young's *2013 UK attractiveness survey*

Interview

Investment in skills to boost UK's growth

Peter Thomas
Chief Financial Officer, TAQA Bratani

From our perspective at TAQA Bratani, the most important thing about having an operating presence in the North Sea is that it enables us to tap into a very wide and deep base of skills, resources, suppliers and contractors — the whole sophisticated setup around the industry, located both in Aberdeen and the South East of England.

When you're building an international oil and gas business, it's important to have an operating presence in one of the leading developed centers like the North Sea, Houston and the Gulf of Mexico, or Alberta and Calgary. For example, we recently made an investment in the Kurdistan region of Iraq, and to do that without a base in one of the major operating centers would be very difficult.

On the downside, one of the drawbacks and the UK is that it can be fiscally quite uncertain. While this is balanced by other pluses, such as certainty of contracts, the tax rates have gone up and down over the years, partly in response to movements in oil prices. Having said that, since the last big tax increase in 2011, I think the UK Government has made a conscious decision to engage with the industry, and has done so in a positive way, including listening to views on how to make the UK a more attractive investment location.

Top of our list of priorities a couple of years ago was getting greater certainty over the tax reliefs that will apply to decommissioning of offshore assets. While we're not quite at the finishing line on that, we're pretty close, with the recent Budget announcement on the measures that have been negotiated. Running in parallel, the Government has announced the tax allowances for different types of more marginal investment, making them economically attractive.

In terms of the UK's continuing ability to attract investment, skills are vitally important. There's clearly a very strong base of industry skills in Aberdeen, and on the financial and commercial side in London. Having that pool of skills in the North East of Scotland and throughout the UK, backed up by our universities, is extremely important and also self-reinforcing: the stronger the industry, the better the supply base, the higher the demand for skills, and the greater the attractiveness to talent.

> "We knew we could establish a local UK team more quickly and easily than in other countries."

So, going forward, I see two priorities for the UK to help itself remain attractive. One is creating certainty on tax, by continuing to listen to the industry, taking sensible measures, and maintaining the tax take at an appropriate level. As an industry, we like stability — and we don't like shocks or surprises, such as repeated changes in the tax or regulatory regime.

The other priority for the UK should be investment in relevant skills, underpinned by recognition that the oil and gas industry is strategically vital to the UK's interests. There are shortages in some key industry skills, and sometimes it seems that more "fashionable" sectors get the headlines and support. Government can help to counteract this by supporting the industry in ways that don't cost a lot of money, such as by putting across a positive message about the contribution of the oil and gas sector to the economy. That, in turn, will help to attract people into the skills base over time.

Viewpoint by Ernst & Young

Shaping the UK's role as a center of excellence

Andy Brogan
Global Leader, Oil & Gas Transaction Advisory Services
Ernst & Young UK

This year's UK attractiveness survey highlights the continued importance of the UK to the global oil and gas industry, both as an investment destination in its own right and as a global center of excellence.

The industry's significance to the UK economy as a whole is now widely recognized, and has been underlined by the successful engagement from central Government over the past two years. We do believe that there are some areas where more progress is required to underpin the UK's role as a center of excellence, such as around investment in training and skills.

In our recent UK oilfield services review*, we revealed that over 53% of respondents believed sourcing suitably qualified personnel was the main factor limiting growth in their organization — a greater challenge than access to finance.

Given that people mobility is crucial to the industry, anything that can be done to remove the barriers to movement of talented and qualified people is also key. If these issues can be managed successfully, the UK will be able to maintain its central role in the global oil and gas industry for many decades to come.

*Source: *Review of the UK oilfield services industry, 2012*

"Over 53% of respondents believed sourcing suitably qualified personnel was the main factor limiting growth in their organization."

The UK's relationship with the European Union: investors are divided

Many commentators in politics and media say that if the UK were to renegotiate its relationship with the European Union to be less integrated than it is today, this would have a damaging effect on FDI from all parts of the world. This is not necessarily the case. The picture that emerges from our research is that European companies regard the UK's integration into the EU as being important to the country's attractiveness for FDI, while those in the US and Asia do not.

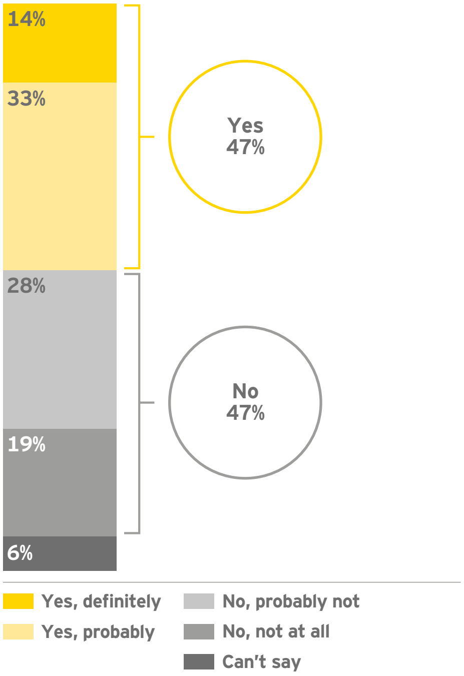
When existing and potential UK investors worldwide were asked whether a lower degree of integration into the EU would make the UK a more attractive place to invest, 72% of companies interviewed in North America thought reduced integration into the EU would make the UK more attractive as an FDI location, against 38% of those interviewed in Western Europe.

Similarly, 56% of investors interviewed in Western Europe said reduced EU integration would make the UK less attractive, compared with 23% interviewed in North America.

The findings from our separate sample of companies in Asia are even more positive about renegotiating the UK's relationship with the EU. Fully two-thirds (66%) of Asian respondents say a lower degree of EU integration would make the UK a more attractive location for FDI, against 25% who think it would make the UK less attractive. Interestingly, our Asian study also shows that a minority of Asian companies – only 48% – find the UK attractive in terms of labor costs. So it appears that companies based in Asian countries may feel that labor costs in the UK could become more attractive if the UK were less subject to EU labor regulation.

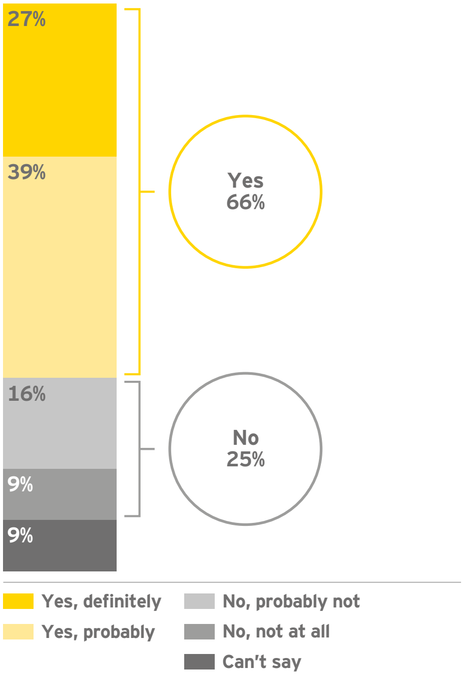
In the context of European integration, it is interesting to note that Ernst & Young's parallel research study on Germany's attractiveness suggests that investors worldwide are not convinced that membership of the Eurozone makes Germany more attractive as an FDI location. Only 42% of investors say that the euro currency is a positive strength for Germany's attractiveness, while 35% are neutral and 20% regard it as a weakness. While just over half (52%) of existing investors into Germany rate the euro as a strength, only a quarter of investors not established in Germany share this view.

If the UK renegotiated its relationship with the European Union to be less integrated than it is today, would this make the UK a more attractive place to invest? (Existing and potential investors from all parts of the world)



Source: Ernst & Young's *2013 UK attractiveness survey*

If the UK renegotiated its relationship with the European Union to be less integrated than it is today, would this make the UK a more attractive place to invest? (Existing and potential investors from Asia)



Source: Ernst & Young's *2013 UK attractiveness survey*
Asia-only study

The UK tax regime: an influential factor on FDI, especially from North America and Asia

As highlighted earlier, the companies we interviewed worldwide believe that the UK's corporate taxation environment has become more attractive for FDI in the past year, with the proportion judging it attractive rising from 53% in 2012 to 61% in 2013. Our global interviews also show that future changes in the tax regime will be a major factor in international companies' future decisions on whether to invest in the UK, with 51% saying it will be a "significant" influence – a proportion that rises to 60% among respondents based in North America, but falls to 39% among Western European companies.

The companies interviewed in our Asia-only study are almost equally as focused on the taxation regime as those in North America, with 59% saying future changes in UK tax will significantly influence their investment decisions. All our survey interviews were conducted before the Government's announcement in the Budget that the headline rate of corporation tax will fall to 20% by 2015, and it seems such changes may play a substantial role in encouraging future FDI.

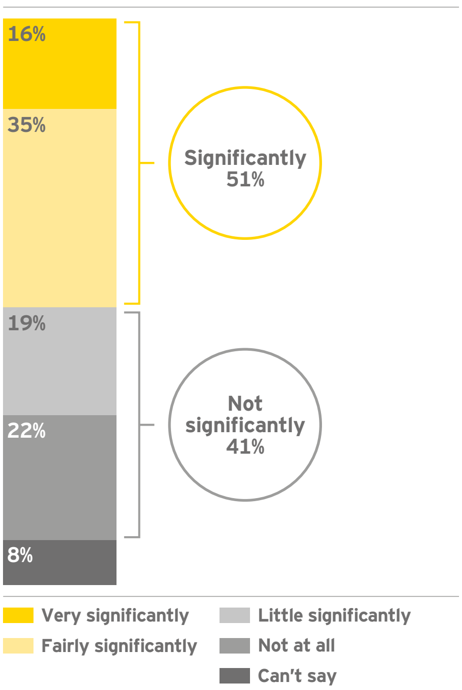
Key findings

61% believe that the UK's corporate taxation environment has become more attractive for FDI in the past year.

51% say future changes in the tax regime will be a "significant" influence in international companies' future decisions on whether to invest in the UK.

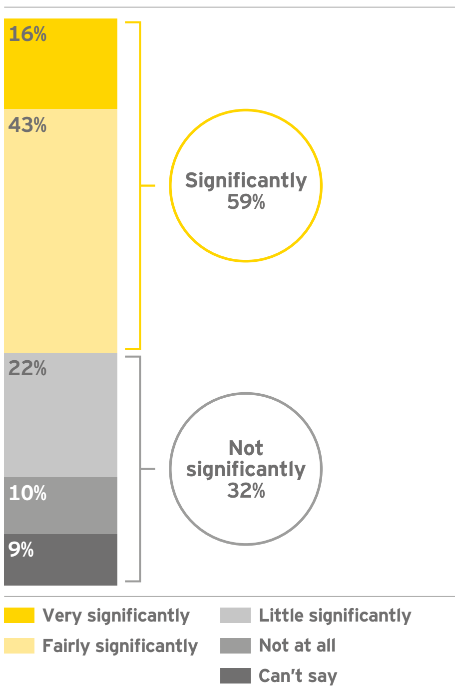
20% Corporation tax will fall to 20% by 2015, and it seems such changes may play a substantial role in encouraging future FDI.

Degree to which existing and potential investors from all regions of the world think future changes in the tax regime will influence their decisions to invest in the UK



Source: Ernst & Young's *2013 UK attractiveness survey*

Degree to which existing and potential investors from Asia think future changes in the tax regime will influence their decisions to invest in the UK



Source: Ernst & Young's *2013 UK attractiveness survey* Asia-only study

Viewpoint by Ernst & Young

The UK is open for business

John Dixon
Managing Partner, Tax — UK&I
Ernst & Young UK

The Government used the 2013 Budget to restate its commitment to "make the UK tax system the most competitive in the G20" and to highlight the significant progress already made toward achieving this goal, despite the difficult economic circumstances.

Chief among the important steps forward announced in the Budget is the headline UK corporation tax rate of 20% that will apply from 1 April 2015. This represents a reduction of 8 percentage points from the 28% rate that applied in 2010, and could be a significant factor in encouraging further business investment and activity to be undertaken in the UK, rather than in competing jurisdictions. Added to this, the Government has specifically focused on promoting the UK as a center for innovation through the introduction of a reduced 10% tax rate for patent-related profits, as well as an "above-the-line" R&D tax credit.

Alongside these measures, the Government's commitment to making the UK a significantly more attractive location for international companies to site their headquarters is further illustrated by the now-completed implementation of the reform of the controlled foreign companies (CFC) rules.

Overall, the UK Government is aiming to encourage investment, while ensuring that tax rules are rigorously applied. The goal — as described by the Exchequer Secretary, David Gauke, in his introduction to the general anti-abuse rule (GAAR) consultation — is to deliver "the right balance between being open for business, but not for avoidance."

"The Government has specifically focused on promoting the UK as a center for innovation through the introduction of a reduced 10% tax rate for patent-related profits, as well as an 'above-the-line' R&D tax credit."

Interview

Driving growth is key in developed markets such as the UK

Kim Underhill
President, European Consumer Division,
Kimberly Clark

There are three "hot topics" that are especially relevant for us when deciding whether to invest in the UK or elsewhere in Europe. They are the tax situation, the prospects for growth in our categories and the degree of currency instability.

In general, we see a clear distinction between the UK and Continental Europe, particularly Southern Europe, which has become an increasingly challenging region for us. There are clearly issues in Southern Europe over unemployment, low growth and the unclear economic outlook. In contrast, Northern Europe — including the UK — still seems to be more stable. But the question going forward is growth.

Regarding the first of our three hot topics — taxation. There are growing challenges in this area as governments across Europe try to address their fiscal problems; we expect the tax environment to get worse. We are already experiencing this in some Southern European countries we operate in. So, while we're not currently changing our investment approach in response, we're keeping a cautious eye on developments in tax in major markets we operate in such as the UK.

The second key consideration is growth. Our strategic focus is now that every part of our business must grow if we're to invest in it. However, we know it would be unreasonable to expect Europe's mature markets such as the UK to grow at the high rates you see elsewhere, in places like Asia. So we'd be comfortable with growth of 1% to 2%, as long as there is growth.

On currency stability, our figures get translated back from sterling and euros to US dollars every month. So currency volatility is the third big factor.

> "We'd be comfortable with growth of 1% to 2%, as long as there is growth."

Of the three considerations of tax, growth and exchange rates, growth is really the key. If we can be confident of achieving growth, we'll be more willing to deal with any tax issues that arise and manage the currency instability. But when you face a situation where there are tax and currency issues and you're not growing, that's like a perfect storm where we would reconsider our investments. Put simply, markets that are growing will remain attractive.

In terms of innovation, we tend to locate our innovation centers close to where the growth is, which currently means Asia Pacific. While there will be some local innovation in the UK and Europe, I think about 70% of our innovation will continue to be swapped in from other parts of the world.

Overall, the UK market remains important to us. It used to be Kimberly Clark's third-largest market worldwide, and while it's slipped from that position, it is still in our top 10. However, one particular concern I would highlight here is what's happening in UK retailing. Retail businesses in the UK are struggling with low growth, and are therefore fighting for market share, and this is driving discounts and putting downward pressure on retail prices for our categories. If this continues, it could make the UK less attractive for us.

London strengthens its grip still further

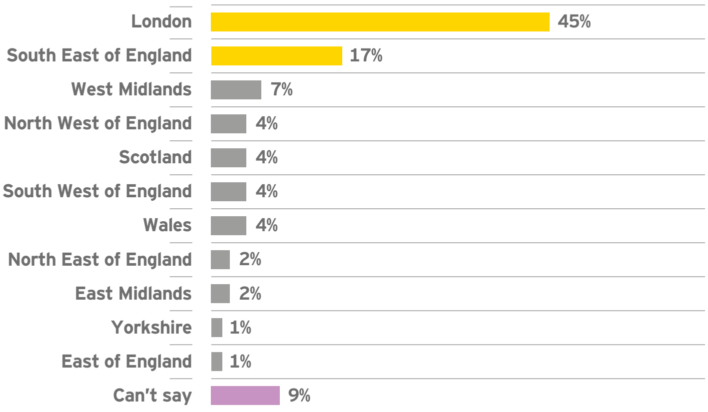
Our analysis of the EIM FDI figures for 2012 confirmed that London remains the dominant UK region, attracting 45% of the UK's total projects. Scotland, Wales and Northern Ireland saw strong increases in the first year of their devolved administrations, while the English regions – now represented by LEPs in inward investment promotion, following the closure of the RDAs – mostly saw declines, taking their aggregate number of FDI projects in 2012 down to a level 24% below that in 2010. Our attractiveness survey mirrors these trends, with 45% of international companies worldwide – up from 35% last year, and including 71% interviewed in North America and 56% of companies not established in the UK – citing London as the most attractive UK region. South East England also performs well, rising from 12% to 17%.

In contrast, all other regions of the UK – including Scotland, Wales and Northern Ireland – see their scores decline this year, with the sharpest decreases being North East England from 10% to 2%; East Midlands from 9% to 2%; North West of England from 9% to 4%; and Yorkshire from 4% to 1%. Northern Ireland falls from 3% to a statistically insignificant score. Coming on top of their generally poor performances in terms of projects secured in 2012, these declining perceptions are a worrying sign for the English regions in particular.

45%

Our analysis of the EIM FDI figures for 2012 confirmed that London remains the dominant UK region, attracting 45% of the UK's total projects.

Which region in the UK do you see as the most attractive to establish operations? (Existing and potential investors from all parts of the world)



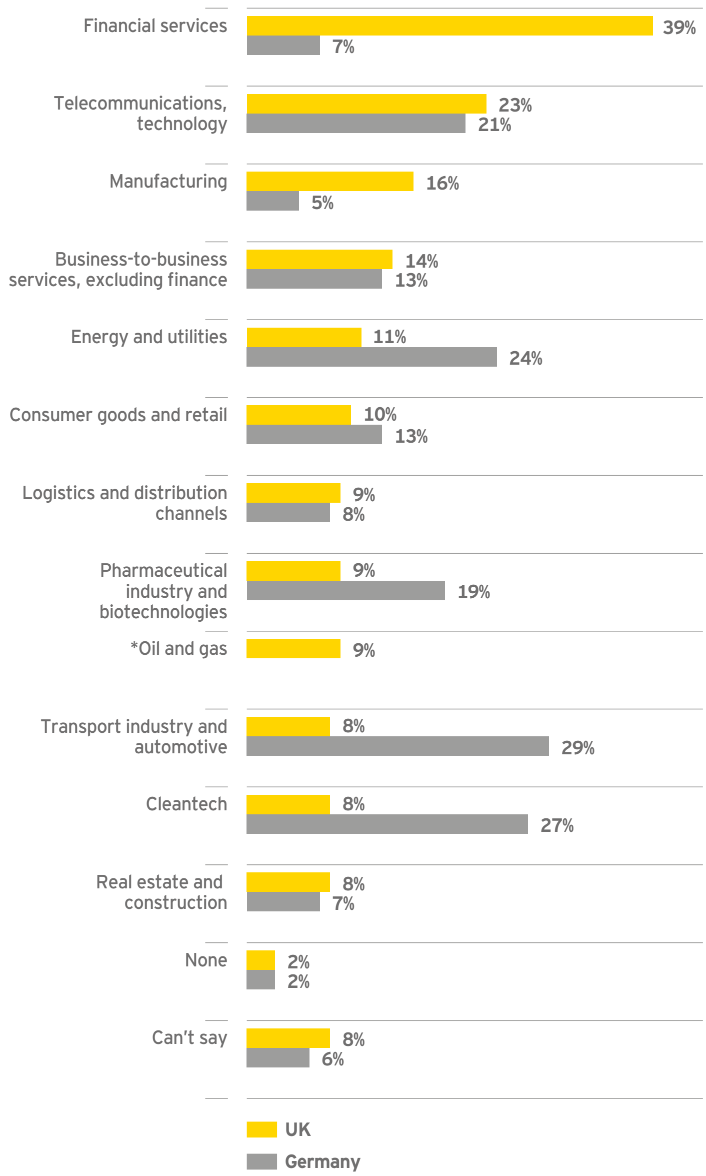
Source: Ernst & Young's *2013 UK attractiveness survey*

Sectors: a mismatch between projects on the ground and future expectations

Asked which business sectors they expect to drive growth in the UK in the coming years, the international companies in our global survey rank financial services first, telecommunications and technology second, manufacturing third, and business-to-business services (excluding finance) fourth. These responses represent a mismatch with the main sectors generating UK FDI projects in 2012, when business services remained the leading sector with 26% of the total, followed by software at 17%, then machinery and equipment at 6%, and financial intermediation only fourth at 4% of all projects.

While 2012 saw a decline in the UK's share of Europe's shrinking market for financial services projects, it seems international investors still associate the UK most readily with financial services investments, probably reflecting London's continued predominance as the leading financial center in the European timezone. This also suggests that the UK is well placed to capitalize on an eventual recovery in financial services FDI if and when it comes. However, there may also be a concern that the global perceptions of which sectors will drive the UK's future growth are out of line with the current reality of its projects profile.

Which business sectors do you think will drive the growth of the UK in the coming years? (Existing and potential investors from all parts of the world)



Sources: Ernst & Young's *2013 UK attractiveness survey*; Ernst & Young's *2013 Germany attractiveness survey*

*Aspect not featured in Ernst & Young's *2013 Germany attractiveness survey*

UK's strength in technology innovation will support sector growth

Ed Hudson
Executive Director, Consumer Products
Ernst & Young UK

Respondents to the survey reflect the UK's strengths as a place to do business: it is a high-population, stable country, with a well-established legal and regulatory structure, good technology and telecommunications infrastructure, and offers a high quality of life and diversity – all of which are positives for investors.

There is now evidence that consumer spending and house prices – on which confidence depends so much in the UK – are trending upward. Within this, retailers and consumer product companies offering innovative products to the consumer through new digital channels are growing particularly strongly, providing a lead to the rest of the sector. We can expect to see a lot of innovation in this sector in the coming years, as the sector adjusts its cost base and business models for increasingly demanding and well-informed consumers.

While growth will be modest over the coming years due to the economic challenges the EU as a whole faces, this positive trend will further encourage investors looking to take advantage of the language, locational and infrastructural advantages the UK offers.

"Retailers and consumer product companies offering innovative products to the consumer through new digital channels are growing particularly strongly, providing a lead to the rest of the sector."

Methodology

Ernst & Young's 2013 UK attractiveness survey is based on a twofold, original methodology that reflects:

1. The "real" attractiveness of the UK for foreign investors.
Our evaluation of the reality of FDI in the UK is based on Ernst & Young's EIM. This unique database tracks FDI projects that have resulted in new facilities and the creation of new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.

2. The "perceived" attractiveness of the UK and its competitors by foreign investors.
We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2013, via telephone interviews, based on a representative panel of 211 international decision-makers. In addition, to gain a deeper understanding of Asian investors, further research was carried out to 103 Asian business leaders.

The real attractiveness of the UK

Data is widely available on FDI. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans. But many analysts are more interested in evaluating investment in physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Europe, Ernst & Young created the Ernst & Young EIM in 1997. The EIM is a leading online information provider tracking inward investment across Europe.

This flagship business information tool from Ernst & Young is the most comprehensive source of information on cross-border investment projects and trends throughout Europe. The EIM is a tool frequently used by government and private sector organizations and corporations wishing to identify trends, significant movements in jobs and industries, and business and investment. The Ernst & Young EIM, researched and powered by Oxford Intelligence, is a highly detailed source of information on cross-border investment projects and trends in Europe, dating back to 1997. The database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment, thus providing exhaustive data on FDI in Europe.

It allows users to monitor trends, movements in jobs and industries, and identify emerging sectors and cluster development. Projects are identified through the daily monitoring and research of more than 10,000 news sources. The research team aims to contact directly 70% of the companies undertaking the investment for direct validation purposes. This process of direct verification with the investing company ensures that real investment data is accurately reflected.

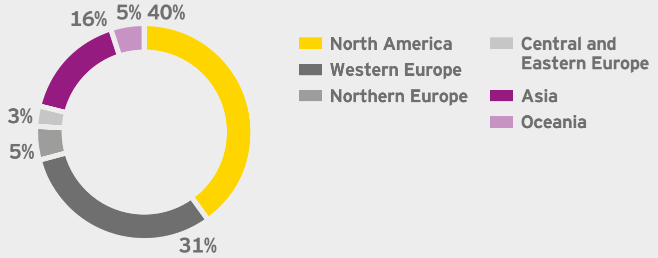
The employment figures collected by the research team reflect the number of new jobs created at the start-up date of operations, as communicated by the companies during our follow-up interview. In some cases, the only figures that a company can confirm are the total employment numbers over the life of the project. This is carefully noted so that any subsequent job creation from later phases of the project can be cross checked and to avoid double-counting in later years.

The following categories of investment projects are excluded from EIM:

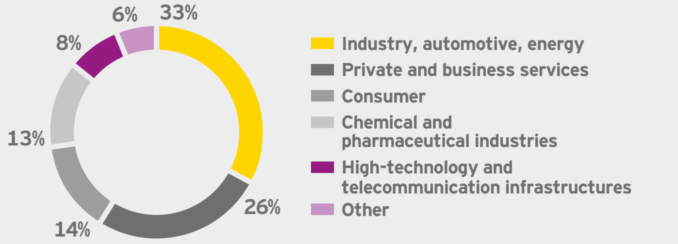
- M&A or joint ventures (unless these result in new facilities, new jobs created)
- License agreements
- Retail and leisure facilities, hotels and real estate investments
- Utility facilities, including telecommunications networks, airports, ports or other fixed infrastructure investments
- Extraction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

Global survey sample

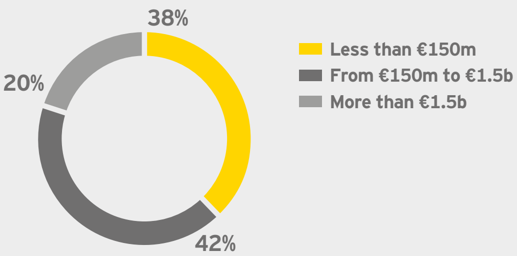
Origin of companies interviewed



Key sectors interviewed

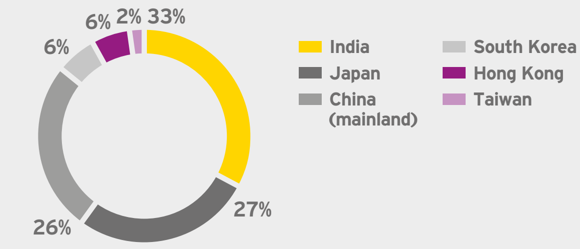


Size of companies interviewed

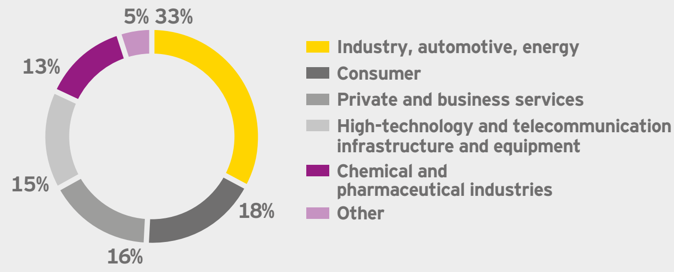


Asian investors sample

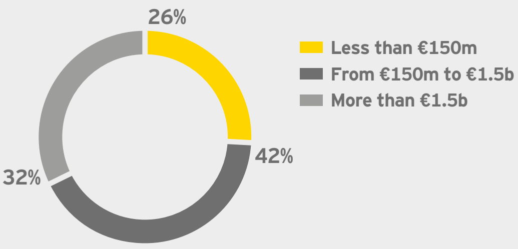
Origin of companies interviewed



Key sectors interviewed



Size of companies interviewed



International markets

Global reach and local expertise

The current wave of globalization continues to transform the business landscape and impact companies around the world. In this current economic uncertainty, whether you are operating in developed markets or expanding into rapid-growth markets, investing your business internationally is an integral part of the journey to achieving sustainable growth.

Here in the UK, we have dedicated multi-lingual business services teams with local expertise. Together, they form an integrated global network, helping you grow your business internationally.

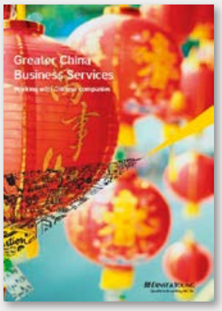
For further information, please visit:
www.ey.com/uk/internationalmarkets

Publications

Brazil

Brazil has emerged as one of the most exciting economies in the world with its broad industrial base. Whether you are a Brazilian company seeking international expansion into the UK, or a UK company optimizing your investment in Brazil, our dedicated Brazil Business Service team can help you capitalize on this growth.
www.ey.com/uk/bbs

China



China has become the world's second-largest economy. The growing middle class and the scale and pace of China's urbanization present vast opportunities for UK businesses. Now is also the time for Chinese companies to expand internationally. Our Greater China Business Services team can help you navigate the opportunities and challenges of operating in China or entering into the UK.
www.ey.com/uk/cbs

India

India may be a complex and challenging market, but it has been progressing through the reforms of its economy and opening up to foreign investment. Whether you are seeking to invest in India or in the UK, our India Business Services team can provide in-depth develop effective strategies to help you optimize your investment.
www.ey.com/uk/ibs

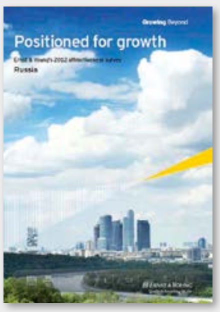
Japan

Our global network of bilingual professionals is dedicated to providing a bespoke service for our Japanese clients around the world. The team is made up of experienced professionals with deep knowledge of both the UK and Japanese corporate environments, gained through direct experience of serving major clients.
www.ey.com/uk/jbs

Middle East and North Africa

Between 2003 and 2011, FDI in the Middle East grew at an annual rate of 12.5%; it is a significant emerging market. Our Middle East and North Africa (MENA) Business Services team is committed to assist MENA-based companies with their overseas business interests and UK companies seeking to explore investment opportunities within the region.
www.ey.com/uk/mena

Russia and CIS



Russia is the eighth-largest economy in the world. Its thriving domestic market presents huge opportunities for both Russian and UK businesses. Our Russia and CIS Business Services team has on-the-ground experience and understanding of local market issues and challenges, to deliver services tailored to your business needs.
www.ey.com/uk/rbs

High-performance teams delivering exceptional results

At Ernst & Young, we recognise that when talented and engaged people are brought together into high-performing teams, the results can be exceptional. In sport, as in business, success can be achieved when teamwork and pride take precedence over personal achievement and where individual success is only possible when supported by an equally driven and talented team. Along with meticulous preparation we know that great performance is easier with the right people behind you – ensuring you compete at your very best.

The Commonwealth Games

We're proud to be the Official Professional Advisor to the Glasgow 2014 Commonwealth Games. The Games is a great international sporting spectacle, and we're delighted to play our part in planning for its lasting legacy. The Games will see over 6,500 athletes, officials from 17 sports, and over one million ticket-holders converge on 14 venues and 3 precincts over 11 days of competition, making it the largest multi-sport event ever to be held in Scotland, and one of the largest in the UK. With competitors from across the diverse Commonwealth nations, it will be an international event watched by over one billion people around the world.

As Official Professional Advisor, we're working with Glasgow 2014 to tackle the many complex financial, logistical and organizational challenges of staging the Games. We're providing world-class professional services support, including tax advice, internal audit and advisory services, to help deliver Glasgow 2014's vision of an outstanding, athlete-centered, sports-focused Commonwealth Games. But the Games are so much more than a great sporting contest. They will have a profound impact on the local economy and society, from new jobs and skills, to whole area regeneration. And they will be an international showcase for the UK's cultural, sporting and business vitality, creating new contacts and conversations across the Commonwealth.

As a sponsor, we're excited about the many opportunities to involve our clients, our employees and local communities in the Games experience.

GLASGOW 2014
XX COMMONWEALTH GAMES

Official Professional Advisor & Supporter

The Ryder Cup

Ernst & Young's sponsorship of The Ryder Cup reflects our commitment to exceptional performance delivered by high-performing teams and inspirational leaders.

Elite golfers mostly perform in individual competitions. The highest-profile exception is The Ryder Cup – golf's premier team event, and a highlight in the world sporting calendar. Every two years, the 12 best golfers in the United States compete against their counterparts from Europe for a trophy named after the competition's founder, British businessman Sam Ryder.

At The Ryder Cup, the result is not just determined by who has the better golfers. The difference between victory and defeat can come down to who has blended the diverse talents and personalities of 12 elite individuals into the best unit; who has created the highest-performing team.

In a very short space of time, and under intense scrutiny, the Team Captain has to choose the players, assess how they interact and work out how best to motivate each individual. And the European Captain faces the added challenge of combining players from different countries with distinct cultures into a coherent team unit. It is a very public, high-profile test of leadership.

Ernst & Young is proud to be an official partner of The 2014 Ryder Cup. We look forward to being at the event in Gleneagles, Scotland, to lend support.

RYDER CUP 2014™

OFFICIAL PARTNER

Ernst & Young

Assurance | Tax | Transactions | Advisory

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