Reinventing European growth

Ernst & Young's 2009 European attractiveness survey

Ernst & Young
Quality In Everything We Do

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Foreword: opportunities in adversity

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The G20 spring meeting closed with promises of a more regulated global economy. We now have a much better picture of the factors impacting businesses around the world: difficulty in accessing finance - despite an unprecedented fall in indicative interest rates, slumping demand, slowing economic growth or contraction, rising unemployment, weak consumer confidence and falling profits.

As a consequence, we are seeing a rise in the number of stressed companies around the world: a record number of companies are expected to go bankrupt in 2009. In Europe and in the US, 260,000 business insolvencies are expected. More companies are likely to breach their loan covenants in 2009 as the slowdown intensifies, leading to a surge in company restructurings or failures.

Foreign investors - companies acquiring assets and/or expanding operations in international markets - are waiting for the dust to settle after the demolition of financial services on which they used to rely. They are driving blind with no visibility on the road they used to follow. Yet 74% of international business leaders have put their immediate confidence in Western Europe's ability to address the economic crisis. They'd sooner stay at home than venture abroad. Emerging regions are not providing the absolutely safe ground international investors are looking for.
Yet, the engine of growth in the global economy is moving east, propelled by a combination of commodity production and the advent of a new Asian middle class. Emerging market multinationals are becoming global champions in many industries. In this world in transformation, new power brokers (sovereign wealth funds, private equity, hedge funds) have taken off, but the financial crisis is altering their trajectories.

In this troubled and fascinating year, *Ernst & Young's 2009 European attractiveness survey* reports on the 3,718 mobile capital investments made in 42 European countries by multinationals, both large and small, which have created more than 148,000 jobs. These foreign investors have pursued locations with supply chain potential, competitive costs and advantageous resources, attractive national and local tax structures, business incentives and technology clusters.

How were European countries affected by the crisis and in which sectors ? How are business leaders looking at Europe and other global regions to tackle the crisis? What are their longer-term prospects - if any? What is expected from governments, national and local, to help businesses get through the current situation and beyond?

These issues form the core of *Ernst & Young's 2009 European attractiveness survey*, based on a two-fold, original methodology that reflects, first, Europe's real attractiveness for foreign direct investors, based on Ernst & Young's European Investment Monitor (EIM), and second the 'perceived' attractiveness of Europe and its competitors by a representative panel of 809 international decision-makers.

In 2008, Ernst & Young took a vital step by bringing together 60,000 people in 87 national practices across Europe, the Middle East and India. As we present our seventh European attractiveness survey, we would like to extend our gratitude to the thousands of decision-makers and Ernst & Young professionals who have taken the time to share their thoughts with us.

The Scorecard

FDI market – euro-check

3,718 projects were announced in 2008, putting an end to five years of sustained inward investment growth

In 2008, Europe secured as many Foreign Direct Investment projects as the year before, but the impact of the economic crisis on job creation was severe. Investment announcements totaled 3,718, nearly unchanged on 2007, ending five years of sustained growth. But the number of jobs created by FDI fell 16 per cent to 148,333, accelerating a downward trend underway since 2004.

Winners: there were some winners in 2008, notably Germany, Switzerland, Sweden, Italy and Ireland. Germany's FDI upsurge was fueled by new regional headquarters for domestic or Eastern European markets, and by industrial demand for business services and software. Western Europe also began to see significant numbers of renewable energy projects for the first time.

Losers: IT outsourcing, financial and logistics were early victims of the downturn as their clients struggled. They launched fewer new facilities in Western Europe, especially in the UK, France and Spain. New jobs in these top FDI sectors slumped by 23% in 2008. Eastern European countries that took a hit in 2008 include former FDI hotspots such as the Czech Republic, Slovakia and Turkey where numbers fell, especially in automotive and electronics.

Coping with crisis – europhile

Western and Central and Eastern Europe lie neck-and-neck as the safer FDI destinations

In 2009, 42% of investors will reconsider the way they expand their international operations. Hit by the crisis, FDI activity in 2009 is likely to be dominated by non-cash mergers and consolidation, as companies seek to survive economic turmoil by optimizing assets and merging activities to cut costs. Risk management is at the top of companies' location strategies. Investors' top priorities include: how they receive inputs and deliver goods and services (52%), stability of the legal environment (49%), and labor skills (49%).

As a consequence, investors see Europe as the safer FDI destination for the immediate future. Western and Central and Eastern Europe lie neck-and-neck as the safer FDI destinati, with Western Europe rising seven percentage points compared with 2008. Although the global economy is no longer driven by the triumvirate of Europe, the US and Japan, international investors see Europe as known, predictable and protective.

Brazil, Russia, India and China (BRICs) lose their FDI appeal until things get better. After topping the attractiveness table in 2008, China loses 14 points, ranking third in 2009. India is fifth, behind North America, whilst Russia and Brazil, previously rising stars, trail in sixth and seventh places, respectively. Although entering and operating in new markets can offer tremendous opportunities, it also brings new risks decision-makers say they cannot currently afford.

Post-crisis - euroskeptic

40% were unable to mention any opportunity for growth

When interviewed about Europe's future recovery drivers, the first response of our global panel was... a non response, reflecting today's uncertainty about their markets and outlook. A quarter of them declined to identify the most promising business sectors to help Europe's recovery and 40% were unable to mention any opportunity for growth in this context.

In the longer-term, the economic downturn is unlikely to keep the global center of economic gravity from moving East. Companies from developed economies will continue to expand in emerging markets to grow their business, improve their cost structure and/or tap skilled labor pools. Asked which will be the most attractive region over the next three years, our panel puts China and Central & Eastern Europe in first place (52% and 51% respectively). India ranks third, followed by Russia and Western Europe. Brazil is in sixth position.

Eureka? Seeking a new business model

25% of business leaders make a direct connect between attractiveness and education

Europe will not remain a winner without completely reinventing its growth strategy. A new business model must be found. What is needed?

Creative revolution: The promotion of innovation and measures in support of innovation are now at the very top of investors' priorities. Twenty-five percent of respondents make a direct connection between European attractiveness and improvement of education in innovation-intensive sectors. The global battle for competitiveness and mastery of the knowledge economy is growing. Demand for skills is increasing.

Growth wanted: Our global panel believes the telecoms industry (16%), consumer goods manufacturers (14%), and energy, environment and financial services players (11%) will help drive Europe's recovery.

Europe's city-zen: European cities are a key attractiveness asset. Some of their merits are hard or expensive to imitate. Our panel is seduced by their exceptional culture and history (27% of respondents), international accessibility (26%) and lifestyle (25%). But Europe's cities cannot rest on their heritage and park benches. They must accommodate and become centers of innovation and ideas.

What happened to FDI in 2008: contraction

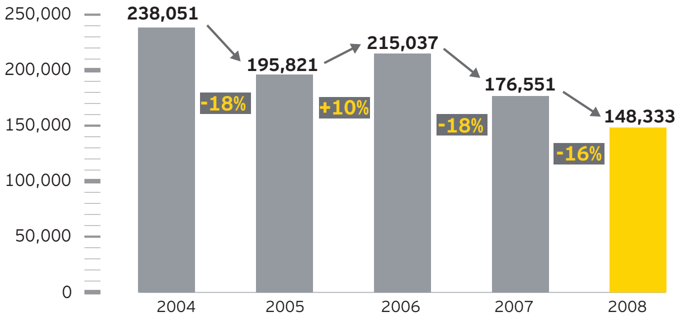
In 2008, with 39% of global FDI inflows, Europe remained the number one destination for international investment. Yet the continent was clearly hit by the crisis, receiving smaller investment projects in fewer locations. In this section, we describe the changing patterns of FDI in Europe, in sectors and types of investment. We also present, based on Ernst & Young's European Investment Monitor, the winners and losers in a troubled year.

Contraction

Foreign investment projects stall, job creation falls

In 2008, Europe secured 3,718 investment announcements, four more projects than in 2007. Five years of sustained inward investment growth came to an end. Despite the growing attractiveness of more dynamic, smaller economies, Europe's diversity and economic size had hitherto underpinned its declining but dominant 39% share of the world's FDI inflows (in Bn$). Europe has been hit by the economic crisis, and its prospects of playing a leading role in a multi-polar world are in doubt for the immediate futur.

Job creation by FDI in Europe



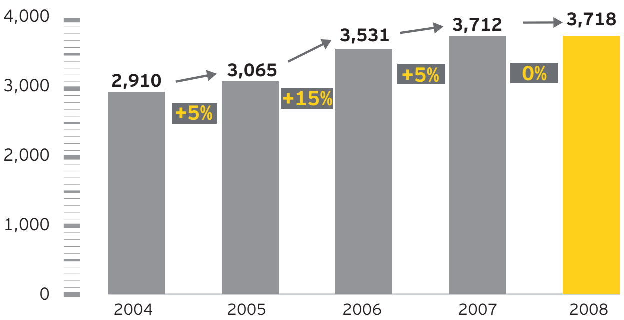
Source: Ernst & Young European investment monitor 2009

"Five years of sustained inward investment growth came to an end"

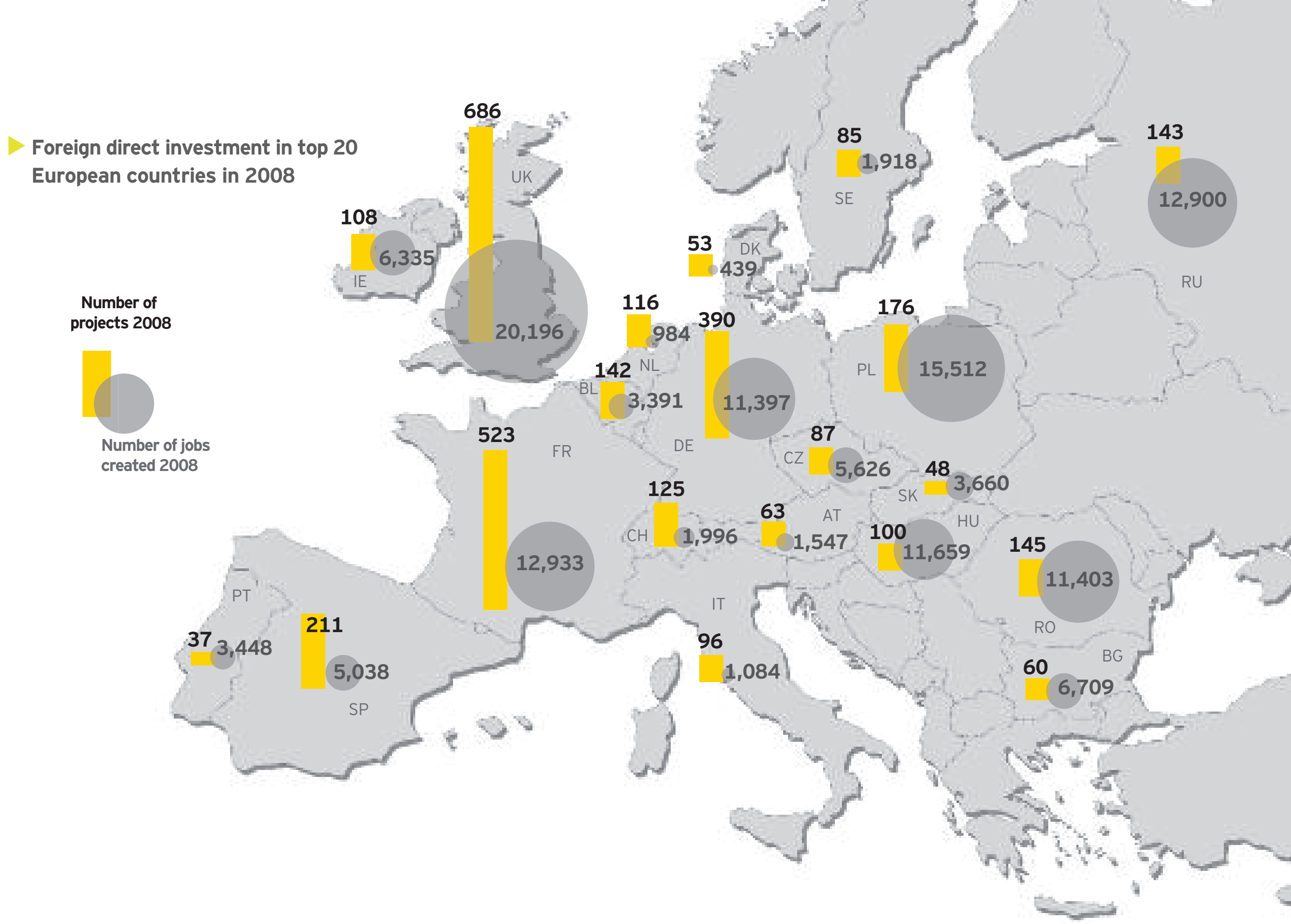
Projects were scaled back, and some were halted. But the momentum of decisions made many months before and the misleadingly untroubled first semester may explain why companies made almost as many investment announcements in 2008 as in 2007 - and more than any year before that.

But the troubled year had a severe impact on job creation. In 2008, foreign investment led to the creation of 148,333 new jobs, a 16% decline from 2007, reinforcing a downward trend in new employment prevailing since 2004.

FDI projects into Europe



Source: Ernst & Young European investment monitor 2009



Source: Ernst & Young European investment monitor 2009

Location strategies: low risk, low reward

Analysis of criteria used by international executives in selecting investment locations shows 2008 decisions are dominated by four sets of factors:

1. **Getting to market**: the main reason companies change or add locations is in response to a change in their market - its scale, place, nature or diversity. What rivals are doing, as well as, quality and price, also matter. Location decisions depend on proximity to markets, transport mobility and telecommunications infrastructure.

2. **Labor and productivity**: companies also need physical assets and workers. They may arbitrate between different labor profiles. Skills, labor availability and costs are therefore measured against productivity for the best mix.

3. **Taxes and laws**: these can directly or indirectly shape the flexibility and profitability of an investment. Tax burdens and incentives, legal and regulatory factors and public incentives all matter.

4. **Environment and region**: the operating environment, and the extent to which it offers a company the means to develop, is important. Companies weigh up the availability of capital and financial markets, specific expertise in a given region, the wealth of innovation and research and even the quality of life.

Foreign investors are reviewing their location strategies as they adapt to market uncertainty. Stability, predictability and quality criteria are, more than ever, at the top of investors' immediate concerns. Investors are giving priority to how they receive inputs and deliver goods and services (very important for 52% of them), the stability of the legal environment (49%), and labor skills level (49%).

Today's uncertainty is leading companies to put risk management at the top of their agenda (stability and predictability of their location options). Companies operating in high-tech and business services tend to favor quality factors such as telecommunications infrastructure (very important to 61.5% of business-to-business services companies) and labor skills level ("very important" for 53% of them). Industrial companies are more focused on cost efficiency: labor costs are "very important" for 50% of them.

"Stability, predictability and quality criteria are, more than ever, at the top of investors' immediate concerns"

Sectors: a perfect storm

As revenues fall, operating costs soar and non-essential projects are halted. Many companies have suspended projects linked to market expansion and acquisitions.

"Many sectors also face pressure to restructure and become more efficient, adding to investment activity"

Some industries have been **hit by multiple shockwaves**:

- **Automotive**: demand fell, credit for sales financing and liquidity became tight. Pending 'green' cars in production, companies are looking to optimize working capital, restructure and survive. Yet though down 13% on 2007, almost a quarter of new FDI jobs in Europe were in the automotive industry.
- **Real estate**: new projects are on hold as the industry strives to value "de-valued" assets.
- **Software**: as their financial clients struggled, companies slashed new facility projects especially in the UK, France, Spain and Ireland.
- **Electrical** and **electronics**: plans to follow automotive clients to Poland, the Czech Republic, Hungary or Romania were suspended.
- **Finance**: fewer projects as banks wrestled with scarce liquidity, increased counterparty risk, and balance sheet crises. Eastern expansion stalled, front offices in the west were down-sized.

Job creation by FDI

	Sector	Jobs 2007	Share 2007	Jobs 2008	Share 2008	Trend 2007-2008
1	Automotive	37,229	21%	32,459	22%	-13%
2	Business Services	13,201	7%	13,220	9%	0%
3	Machinery & Equipment	7,313	4%	12,611	9%	72%
4	Food	6,553	4%	8,677	6%	32%
5	Software	12,734	7%	7,364	5%	-42%
6	Electrical	8,021	5%	6,303	4%	-21%
7	Electronics	19,034	11%	5,569	4%	-71%
8	Other Transport Services	3,272	2%	4,898	3%	50%
9	Plastic & Rubber	3,409	2%	4,854	3%	42%
10	Other Transport Equipment	2,176	1%	4,803	3%	121%
11	Pharmaceuticals	4,526	3%	4,577	3%	1%
12	Non-metallic mineral products	4,047	2%	4,327	3%	7%
13	Chemicals	2,823	2%	3,614	2%	28%
14	Fabricated Metals	3,579	2%	3,497	2%	-2%
15	Retail	4,765	3%	2,809	2%	-41%
16	Financial Intermediation	7,351	4%	2,637	2%	-64%
17	Wood	1,848	1%	2,207	1%	19%
18	Computers	6,346	4%	2,200	1%	-65%
19	Furniture & Sports Equipment	1,985	1%	2,104	1%	6%
20	Scientific Instruments	1,999	1%	1,857	1%	-7%
	Other	24,340	14%	17,746	12%	-27%
	Grand Total	176,551	100%	148,333	100%	-16%

Source: Ernst & Young European investment monitor 2009

Number of FDI projects

	Sector	Projects 2007	Share 2007	Projects 2008	Share 2008	Trend 2007-2008
1	Business Services	467	13%	544	15%	16%
2	Software	474	13%	398	11%	-16%
3	Machinery & Equipment	205	6%	243	7%	19%
4	Automotive	223	6%	211	6%	-5%
5	Electronics	203	5%	193	5%	-5%
6	Other Transport Services	177	5%	192	5%	8%
7	Financial Intermediation	235	6%	183	5%	-22%
8	Chemicals	119	3%	147	4%	24%
9	Food	142	4%	145	4%	2%
10	Pharmaceuticals	122	3%	116	3%	-5%
11	Electrical	117	3%	114	3%	-3%
12	Non-metallic mineral products	110	3%	108	3%	-2%
13	Plastic & Rubber	92	2%	94	3%	2%
14	Fabricated Metals	102	3%	78	2%	-24%
15	Scientific Instruments	63	2%	77	2%	22%
16	Insurance & Pension	71	2%	60	2%	-15%
17	Publishing	69	2%	59	2%	-14%
18	Computers	39	1%	53	1%	36%
19	Scientific Research	49	1%	52	1%	6%
20	Real Estate	51	1%	52	1%	2%
	Other	582	16%	599	16%	3%
	Grand Total	3,712	100%	3,718	100%	0%

Source: Ernst & Young European investment monitor 2009

Some industries **are weathering recession better than others**:

- **Machinery and equipment**: a surge of projects to supply wind turbines, solar components, fuel cells.
- **Food industry**: increased capacity to serve consumer markets in Russia and Poland.
- **Logistics**: location, infrastructure and land availability drew new warehouses to France and Poland.
- **Business services**: unaffected by crisis in early 2008, training and education firms, online service providers and engineers in cleantech/green tech, including Indian and Chinese multinationals, established new sales and marketing offices in Europe's larger cities, headed by Paris and London.

In 2008, renewable industries created industrial jobs in Europe, and will create more. Opportunities lie within challenges. Astute businesses position themselves to take market share or access new 'green' market opportunities. While many markets or industries may experience much slower growth, or contraction, in 2009, overall demand in sectors such as healthcare and renewables may continue to grow. Many sectors also face pressure to restructure and become more efficient, adding to investment activity.

The cratered European FDI landscape

"FDI in Central and Eastern Europe created 16% fewer jobs in 2008"

Foreign investors have behaved very differently in Europe's mature economies during 2008, from the way they have in the continent's emerging markets. While Western Europe[1] broadly maintained the number of FDI projects at the same level as in 2007, the Eastern countries saw inward FDI projects fall by 5%. The contrast in job creation was still more marked: foreign investments created 26,491 fewer jobs in CEE, but 'only' 1,727 fewer new posts in the West.

Flexible social regulations, resistance in West European countries to downsizing at large industrial plants, and a scarcity of major investors have clearly had a knock-on effect on the more fragile economies of the new Europe. German manufacturers, US IT outsourcers, and French carmakers have all shown greater loyalty to their countries of origin and historical markets, launching fewer projects in emerging Europe.

Job creation

Sector	2007	2008	Trend 2007/2008
CEE	102,910	76,419	-26%
WE	73,641	71,914	-2%
Grand Total	176,551	148,333	-16%

Source: Ernst & Young European investment monitor 2009

Number of FDI projects

Sector	2007	2008	Trend 2007/2008
CEE	1,042	992	-5%
WE	2,670	2,726	2%
Grand Total	3,712	3,718	0%

Source: Ernst & Young European investment monitor 2009

1. **Western Europe** include the following countries: UK, France, Germany, Spain, Belgium, Sweden, Switzerland, The Netherlands, Ireland, Denmark, Italy, Austria, Portugal, Finland, Greece, Luxembourg, Norway ,Malta, Iceland, Monaco, Liechtenstein.
Central and Eastern Europe include the following countries: Poland, Hungary, Russia, Czech Republic, Romania, Slovakia, Bulgaria, Turkey, Serbia, Ukraine, Lithuania, Estonia, Latvia, Croatia, Slovenia, Bosnia and Herzegovina, FYRO Macedonia, Albania, Belarus, Moldova, Cyprus, Montenegro.

Professor Edward Krubasik

Company director and policy advisor, past President, European Engineering Industries Association. Germany.

Inventing demand growth

"Orders at many industrial equipment, automotive, building products and construction companies – in Germany and elsewhere in Europe - are down by 40-50% from their July 2008 peaks. Many conglomerates have yet to reveal the scale of damage in their worst-hit divisions. And many companies owned by private equity are over-borrowed.

So the first thing we need is a revised insolvency regime that will make it easier to save distressed companies, by favoring the survival of the company over the interests of creditors. Otherwise it will cost far more to rebuild these corporate structures in the long term.

We need to use tax relief or similar mechanisms to prime the investment pump, for example to encourage light industry and households, which waste a lot of energy, to invest in more efficient motors or insulation: these investments have a quick payback and create demand here in Europe.

We need cultural and accounting changes, so that instead of buying the cheapest buildings to construct, governments buy buildings with the lowest through-life cost, including their energy needs for heating, lighting and air conditioning.

Then we need to use public borrowing, not to finance consumption, but to invest in goods and services that will benefit the next generation. They will have to repay the additional debt, so this is only fair.

So we need investment and innovation in education programs and healthcare, and also in green technologies and infrastructure that benefits competition and lowers costs, like cross-border power transmission and broadband networks.

To invent growth, we must first invent the right kind of demand, here in Europe."

"Europe was able to build world class industrial positions in the global system for mobile communications, transportation, and industrial equipment. This was possible to a large extent thanks to continuous R&D efforts and by promoting standards based on collaboration.

Today, in a context of increasing competitive pressures on Europe, the industry landscape is evolving rapidly: over the past few years the hi-tech, high-value added industries have all experienced significant shifts in the global playing field that have redistributed the respective roles of world regions.

These trends are posing big challenges, of course, but they are also generating new opportunities that are pushing major industrial players to redefine their technology and business strategies globally. The semiconductor industry played, and will play, a crucial role in Europe's competitiveness, enabling 80 percent of the innovations required for advancing a sustainable economy, while generating 10 percent of GDP downstream.

European and national authorities increasingly realize that building on responses to today's major societal needs is essential for Europe to remain attractive and to create tomorrow's lead markets: solutions for a greener environment and energy efficiency, active safety in automotive, intelligent parking and road systems, and increased broadband access to the home and on the move.

The European innovation strategy should be built on four pillars: a robust education system, strong R&D, lead markets and manufacturing expertise. In addition, Europe should implement dedicated innovation-led measures to benefit from those unique foundations and shape its own future."

Denis Griot

Senior Vice President & Chairman, Europe, Middle-east & Africa region, Freescale Semiconductor, Inc. A scientist by training, he personally holds five semiconductor patents.

Inventing sustainable growth

Western Europe: vulnerable services, renewable industries

Services investments in Western Europe were scaled back first, in response to plummeting orders from manufacturers. Banks stopped setting up call centers, software companies established fewer program-writing centers. Growth of business services, notably in logistics and IT outsourcing, slowed. FDI job creation by these powerful FDI motor slumped by 23% between 2007 and 2008.

Expansion projects accounted for 51% of all jobs created by foreign investors in Western Europe in 2008. Liebherr International AG of Switzerland expanded crane-manufacturing operations in Sweden, Germany and France, creating 922 posts. Indian business services company Firstsource Solutions Ltd extended its Northern Ireland contact center, adding 834 staff. Microsoft Corporation expanded massively, co-locating R&D operations at sites across many European countries, adding 815 jobs in total.

"In 2008, renewable industries created 4,780 industrial jobs in Western Europe"

Western Europe began to harvest jobs from green shoots planted by investors in renewables. In 2008, green industries created 4,780 industrial jobs in Western Europe. Australia's Prime Solar Pty Ltd promised a plant making silicon wafers for photovoltaic power generation in Germany by 2010, providing 1,060 jobs. Germany's Enercon is hiring 800 people to make wind turbines in Portugal and France.

Sectors: where jobs are missing

Sectors	2007	2008	Change
Software	9,329	5,473	-3,856
Financial intermediation	4,944	1,745	-3,199
Retail	3,275	1,254	-2,021
Automotive	6,615	5,193	-1,422
Health & Social Work	1,420	535	-885

Source: Ernst & Young European investment monitor 2009

Central and Eastern Europe: industrial asphyxia

FDI in manufacturing and logistics provided 26,491 fewer jobs in Central and Eastern European countries in 2008. Announcements to establish or expand regional headquarters, call centers or shared services provided only modest comfort in an otherwise difficult year for the new Europe.

Job creation by business function

Business function	2007	2008	Change
Industrial functions	89,368	64,309	-28%
Tertiary functions	13,542	12,110	-11%
Total CEE	102,910	76,419	-26%

Source: Ernst & Young European investment monitor 2009

Foreign investors in automotive, electronics, electrical and computer industries made many fewer commitments. The investment shortfall in these top sectors hit countries that had made great efforts to build infrastructure, invest in technical training and provide incentives to Western manufacturers.

Sectors: where jobs are missing

Sectors	2007	2008	Change
Electronics	15,393	2,320	-13,073
Computers	5,911	1,390	-4,521
Automotive	30,614	27,266	-3,348
Electrical	5,620	3,195	-2,425
Textiles	2,604	900	-1,704

Source: Ernst & Young European investment monitor 2009

Projects in the new economies of Europe were put on hold faster than those in US or European multinationals' home markets. Expansion - to grow markets in Eastern Europe or add manufacturing capacity in competitive labor pools - is less a priority than securing the company's existing base. Potential investors do not see today's circumstances as a springboard for major expansion projects.

Andrius Kubilius
Prime Minister, Lithuania.

Inventing prosperous growth

"In the wake of the current global downturn, Lithuania has moved swiftly and decisively to reduce the tax burden for firms investing in R&D and innovation. In November 2008, we trebled tax write-offs for R&D investments.

This measure bolsters an existing well-funded R&D support program, running to 2013, which features a broad package of measures – low-cost loans, venture capital funding, export assistance, help with patent application, and much else.

In line with our Nordic neighbors, Lithuania is staking its future prosperity both on home-grown innovation as well as on the rapid adoption of advanced technology across a host of sectors, and of course export-oriented firms with high value-added products and services must play a large role in the country's economy.

Incentives to boost R&D are vital, and form a cornerstone of Lithuania's economic policy. We're also rolling out a broadband Internet access program that will cover four-fifths of the country by 2010. And we are standing behind companies that adopt productivity-enhancing technology across their supply chain.

Much support is available to foreign investors who contribute to Lithuanian R&D and innovation.

I can say that I am not just paying lip service to a fashionable topic: I am a physicist by training. Concrete steps are being taken to improve R&D infrastructure – better research laboratories, new small-business incubators and R&D parks.

As we speak, our legislature is putting the finishing touches on a higher education reform bill that will make it much easier to get public and private partnerships off the ground and that removes bureaucratic barriers to innovation."

Job creation by FDI

	Country	2007	Share 2007	2008	Share 2008	Trend 2007-2008
1	United Kingdom	24,186	14%	20,196	14%	-16%
2	Poland	18,399	10%	15,512	10%	-16%
3	France	14,488	8%	12,933	9%	-11%
4	Russia	14,934	8%	12,900	9%	-14%
5	Hungary	11,104	6%	11,659	8%	5%
6	Romania	12,464	7%	11,403	8%	-9%
7	Germany	5,972	3%	11,397	8%	91%
8	Bulgaria	3,096	2%	6,709	5%	117%
9	Ireland	4,052	2%	6,335	4%	56%
10	Czech Republic	15,102	9%	5,626	4%	-63%
11	Spain	7,335	4%	5,038	3%	-31%
12	Slovakia	8,479	5%	3,660	2%	-57%
13	Portugal	4,045	2%	3,448	2%	-15%
14	Belgium	4,379	2%	3,391	2%	-23%
15	Serbia	5,484	3%	3,063	2%	-44%
	Other	23,032	13%	15,063	10%	-35%
	Grand Total	176,551	100%	148,333	100%	-16%

Source: Ernst & Young European investment monitor 2009

FDI projects

	Country	2007	Share 2007	2008	Share 2008	Trend 2007-2008
1	United Kingdom	713	19%	686	18%	-4%
2	France	541	15%	523	14%	-3%
3	Germany	305	8%	390	10%	28%
4	Spain	256	7%	211	6%	-18%
5	Poland	146	4%	176	5%	21%
6	Romania	150	4%	145	4%	-3%
7	Russia	139	4%	143	4%	3%
8	Belgium	175	5%	142	4%	-19%
9	Switzerland	124	3%	125	3%	1%
10	Netherlands	123	3%	116	3%	-6%
11	Ireland	80	2%	108	3%	35%
12	Hungary	135	4%	100	3%	-26%
13	Italy	69	2%	96	3%	39%
14	Czech Republic	83	2%	87	2%	5%
15	Sweden	81	2%	85	2%	5%
	Other	592	16%	585	16%	-1%
	Grand Total	3,712	100%	3,718	100%	0%

Source: Ernst & Young European investment monitor 2009

Country league table

There were no clear winners and no absolute losers in the 2008 intra-European FDI competition. Despite the economic turmoil, the 2008 rankings are little changed from previous years. Every country was hit, in different ways. Each country's result has to be measured against the average 16% fall in employment created by FDI or stagnation of project announcements.

Countries on Europe's 2008 FDI map fell into three clear groups:

- **Contracting**: most destinations shared proportionately in the declining market trend. Western countries including the UK (still the number one destination for FDI), France, Belgium and Spain saw a decrease both in projects and employment. All industries were hit. In CEE countries such as Poland and Russia, foreign investors remained interested in expanding food or automotive operations. In Hungary, there were fewer but larger projects, a sign that foreign investors remain confident in the long-term prospects.

- **Dynamic**: there were positive or relatively stable trends in Germany, Switzerland, Sweden, Italy and Ireland. Germany's FDI upsurge was fueled by new regional headquarters for German or Eastern European markets, and by industrial demand for business services and software. Though Ireland was bruised by plans to shift manufacturing jobs to more cost-competitive countries, British and US companies continue to invest there (56% of new FDI jobs in 2008).

- **Vulnerable**: former FDI hotspots such as the Czech Republic, Slovakia or Turkey, saw numbers fall dramatically, especially in automotive and electronics. There was little inward location of back offices to mitigate the shortfall in manufacturing job creation. But these activities, which were previously FDI drivers in these destinations, are likely to resume that role in the future.

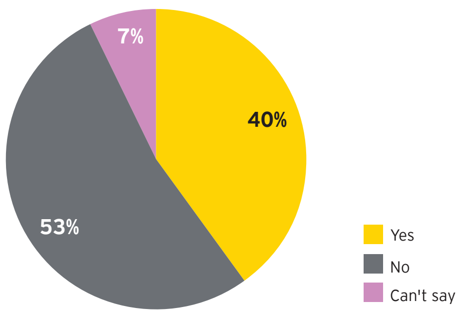
Future investments: a glass half-empty

"The proportion 'definitely not' planning expansion in Europe has reached its highest level"

More than half (53%) of the 809 respondents to *Ernst & Young's European attractiveness 2009* survey have no plans to expand in Europe, up from 47% in 2008. Today, business leaders are focused on survival and maximizing returns on existing assets. Only when the viability of current operations is assured will they feel confident to expand their horizons and look to enlarging the territory in which they operate.

The proportion 'definitely not' planning expansion in Europe has risen every year since 2004 (18%), to reach 31% in 2009. Although the creation of a single European market and the harmonization of European prosperity remain incomplete, many leading companies in many sectors have already achieved the transition from national to pan-European players.

Intentions to invest or expand operations in Europe



Source: Ernst & Young European investment monitor 2009
Respondents: 809 international business leaders

The world is changing faster than ever. Despite faltering trade growth, the march of globalization continues and the gulf between developed and emerging countries narrows further. The turmoil in the financial landscape is driving increased regulation. Aging populations and the different demands of the younger Generation Y challenge the workforce modelthat has existed for decades. Technology continues to alter how we communicate and act. And climate change concerns challenge how businesses operate.
In this section, we look at the prospects for FDI worldwide, and in Europe. We evaluate Europe's attractiveness against its global competitors, and some of the challenges looming in the years ahead.

Confronting the FDI crisis: a European refuge

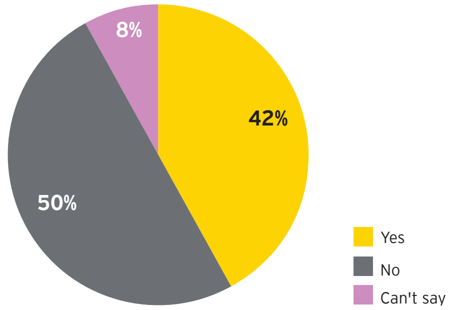
FDI and Europe in 2009: opportunities from adversity?

Economic contraction is hitting international investment flows. In March the International Monetary Fund (IMF) revised its growth estimates downward for 2009, predicting that global gross domestic product (GDP) would fall by 1.3%. The eurozone is forecasted to shrink by 4.2%, against earlier expectations of a 2% contraction. The US is expected to contract 2.8% and Japan by 6.2% (- 2.6% estimated in January 2009).

The two biggest Asian economies are helping cushion the world from northern economic contraction. Though their growth has slowed, China's GDP is forecasted to grow by 6.5% in 2009, and India's by 4.5%.

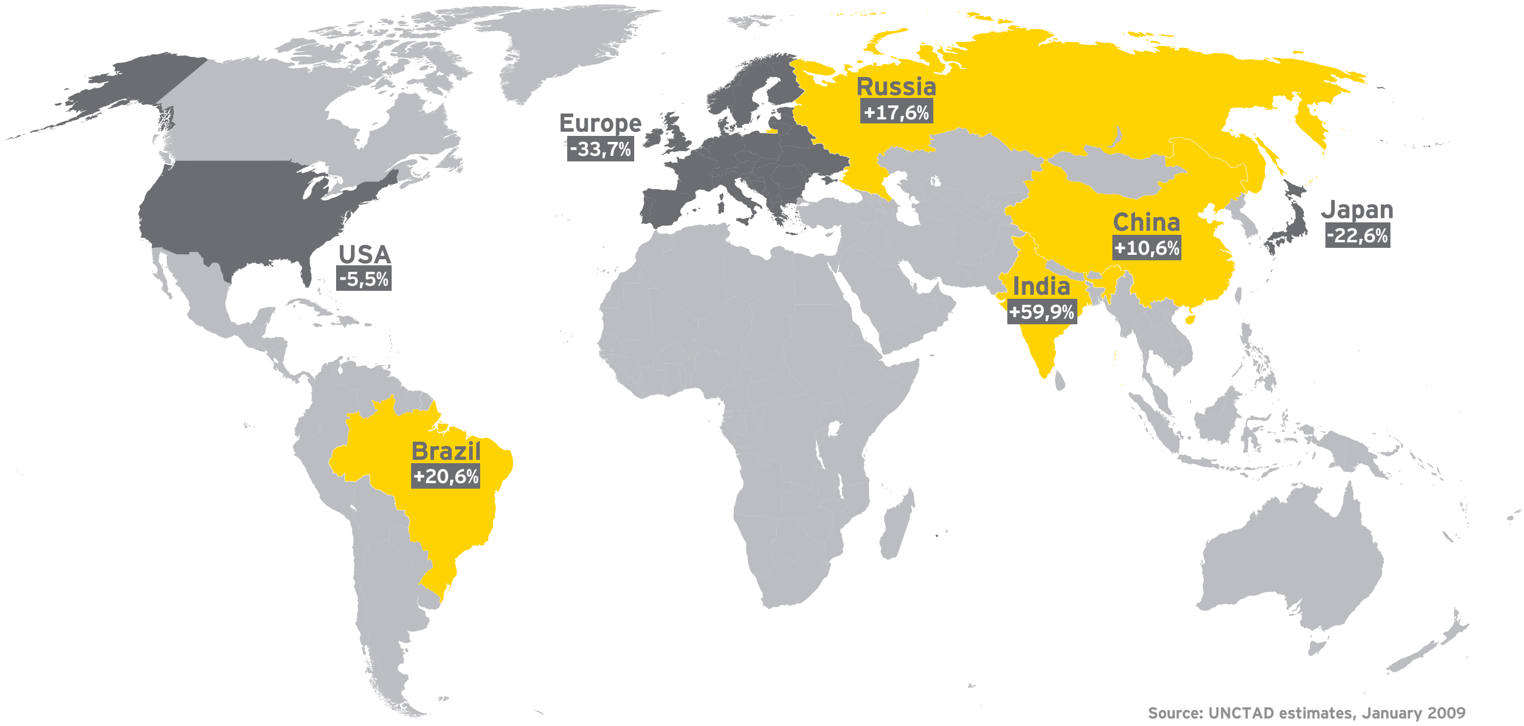
The economic crisis has led to a massive fall in the number of jobs creates throught FDI around the globe. And FDI flows are still slowing fast. According to estimates by the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows fell by US $384.2 billion in 2008, a 21% fall against 2007. Developed economies are worst hit. Inflows to Europe fell 33.7%. Inflows to emerging economies continued to grow, but at a rate of just 3.6% in 2008 - compared with growth of more than 20% in 2007.

Intentions to reconsider international expansion strategy because of the 'crisis'



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders

▶ **The global map of FDI inflows in 2008 (Bn $)**



Source: UNCTAD estimates, January 2009

Transaction reaction: acquire and restructure

The first message from our *European attractiveness 2009 survey* is that 42% of investors will reconsider the way they expand their international operations. FDI activity in 2009 is likely to be dominated by non-cash mergers and consolidation, as companies seek to survive economic turmoil by optimizing assets and combining with competitors to cut costs. Restructuring and mega-mergers are underway in the financial, pharmaceutical and IT sectors, and we can expect similar activity in other vulnerable industries, particularly the automotive sector, where several groups have already launched discussions, and also among airlines.

"Restructuring and mega-mergers are underway in the financial, pharmaceutical and IT sectors"

Some regions of Europe will suffer, if poorly positioned to retain existing facilities in these industries (too little R&D activity, undersized facilities, and low-quality infrastructure) and some may lose foreign investors.

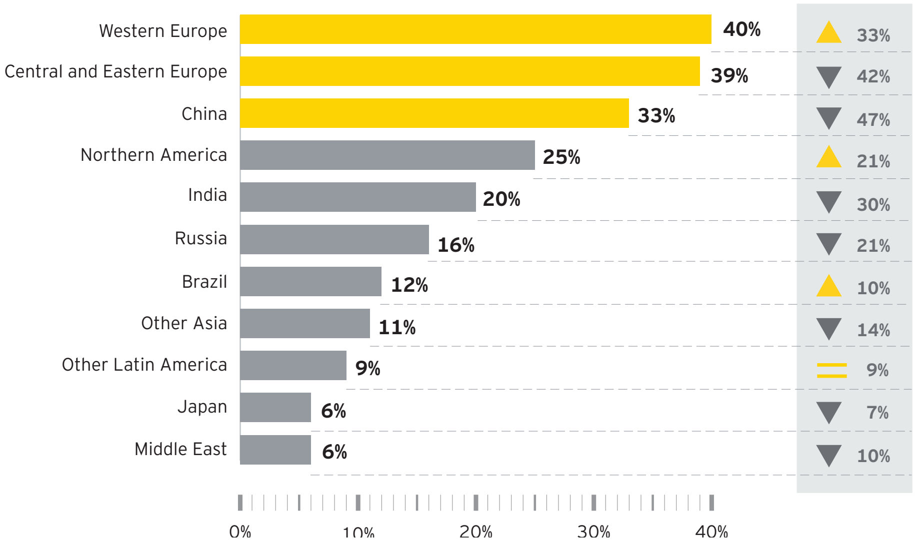
Pressure to cut costs and combine assets afflicts even those industries still benefiting from a growing demand: technology innovation, regulatory pressure, competition and changing consumer behavior compel them to offer more, at lower unit prices.

Short-term solution: safety in Europe

Even though the global economy is no longer driven by the triumvirate of Europe, the US and Japan, foreign investors are showing surprising confidence in the European eco-system. They know it well and they know it will provide safety, for now. Entering and operating in new markets can offer tremendous opportunities, but it also creates risks that decision-makers are saying they cannot currently afford.

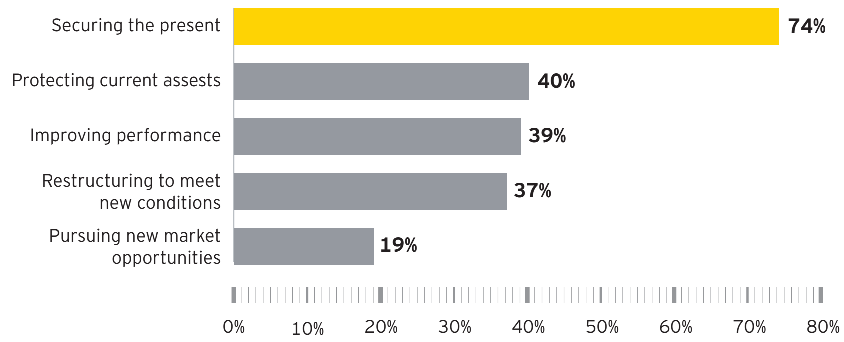
The uncertain climate of 2009 has resulted in an extraordinary return to favoring more familiar markets. Western as well as Central and Eastern Europe are neck-and-neck as the "safest" regions, with Western Europe rising 7 percentage points compared with 2008. The retreat from more distant emerging markets has not affected CEE's long-term attractiveness, but China, which in our 2008 survey was in pole position as the most attractive region in which to establish operations, has lost its crown.

Most attractive regions for FDI projects



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders - Total > 100% many possible answers

Companies emphasis due to current downturn



Source: Ernst & Young's "Opportunities in adversity" study
Respondents: 337 board executives

Stay at homes: Overall, 55% of our panel of respondents is European, because most European FDI originates in other European countries. And whatever their origin, 89% have European investments. Europe already bulks large in their investment location portfolio and they want to protect these assets. An Ernst & Young survey on *Opportunities in Adversity* released in February (2009) showed 74% of companies were focused on securing the present and almost 37% restructuring to meet the new, unprecedented conditions. Virtually all industries and locations have been hit by a lack of credit, declining asset valuations, rising defaults and industry consolidation.

China's rise to prominence in 2008 was short lived. The region has lost 14 points in its attractiveness score in 2009, and is cited by only 33% of respondents. India's rating has also suffered, but fell only 10 points, less than that of China: it was the preferred location of 20% of respondents.

China apart, this ranking of regions is broadly aligned with those perceived as most likely to surmount the crisis effectively. But while business decision-makers cite China as having the greatest ability to address the crisis, our panel is significantly more reticent about locating operations there. China now appears to be seen more as a trading partner, with an increasingly affluent population attractive for its purchasing power, rather than as a business location offering cheap manual labor.

"In February 2009, 74% of companies were focused on securing the present"

"Over the past five years, I led our drive into Europe, which now accounts for 26-27% of our global revenues of $4.6bn. Europe is a significant market, which requires dedicated focus, and we wanted to reduce our dependency on the biggest market, which is the US. So Europe is an important part of our growth and our investment in providing business and technology consulting, business process outsourcing and engineering services.

Today, we have 18 offices across Europe and three near-shore centers, in the UK, Germany, and the Czech Republic, plus Poland, where we have recently opened with 800 staff.

The European market is still far from homogenous. Entering the UK market posed no issues, but it is only in the past couple of years that our growth in France and Germany has been strong.

The basic cost of living comfortably in Europe is about 4-5 times as expensive as compared to India and China and it is unlikely that this gap will be closed in the near future, despite the wage inflation in India.

But there is always a need for technical skills to accompany our clients, notwithstanding some of the work is being off-shored. The understanding of country's business and culture cannot be off-shored.

That's why 80% of our investment is in hiring talented people. In Europe, our experience has been good in terms of finding people with excellent skills, attitudes and business knowledge. But in terms of scaling-up, it is going to be challenging.

So we need to increase the intake of students into technology services in Europe, and ensure people are willing to be mobile, because clients are widely distributed. For me, the future focus has to be on skills."

B.G. Srinivas
Head of Europe, Senior Vice President
and Head of Manufacturing, Infosys.

Inventing talented growth

2010 outlook

What are business leaders telling us?

In total, 74% of respondents say they are very confident, or fairly confident in Western Europe's ability to tackle the financial and economic meltdown. CEE is also expected to overcome present difficulties, although potential investors are more reticent about its capacity to do so. Can East Europeans cope alone? A deep split is developing in Europe over the extent to which Europe's richer Western countries should help their poorer Eastern neighbors. Beleaguered Eastern members fear "old Europe" is drifting from the core European Union principle of a single market, and that this could leave "new Europe" abandoned in its time of need.

China and India are better positioned than many other developing economies for a quick recovery towards double-digit growth. They have relatively small and insulated financial sectors, high savings and socially-concentrated wealth. Since becoming full and leading members of the G20, governments in both countries have responded with an array of measures. India's central bank has eased its key lending rate to increase market liquidity, while tightening monetary policy in other areas to prevent inflation. China, with its focus on economic growth, has announced several stimulus policies; the biggest by far being a US $586 billion package of investment in infrastructure, utilities and housing over the next two years.

Our survey respondents demonstrate faith in the effectiveness of these policies, with China scoring the second among all regions for its ability to address the crisis: 70% of respondents are confident the region has what it takes to overcome the difficulties. India ranks fourth, with 63% of our panel expressing confidence in the region.

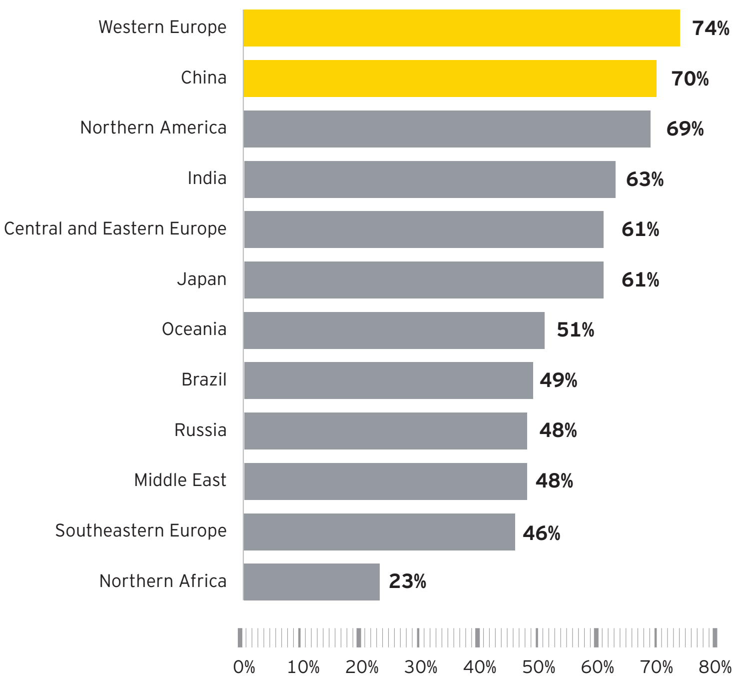
Even North America, where the US is sorely bruised by current events, is given a favorable rating for its ability to address the crisis: 69% of those surveyed proclaim their faith in the region's ability to overcome the current difficulties.

"The economic policies of the key global powers are fundamentally sound"

Europe's advanced regime of "flexicurity" may now be viewed as an advantage; cushioning the downturn and s in demand by keeping more people at work, avoiding home foreclosures, and providing social security payments to the jobless. A handicap in times of strong economic growth has become a regional economic asset in recession - providing an automatic relative stimulus to consumer spending, as well as a social and politically stabilizing role.

The remaining BRICs - Russia and Brazil - fare less well in the eyes of potential investors. Russia's problems stem from an ongoing crisis in its financial markets, the aftermath of the war in Georgia and the plummeting price of its crude oil, which in March this year (2009) was down more than 70% from its July 2008 peak. Brazil does not suffer from Russia's particular problems, but is not immune to falling commodity prices and the global meltdown.

Confidence in the ability of these regions to address the current economic crisis



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders - Total > 100% many possible answers

Jean-Louis Chaussade
CEO of Suez Environnement.

Inventing green growth

To save resources, meet the challenge of demographic growth, and fight climate change, I have long argued for a circular economy founded on the use of innovations that limit the waste of resources and allow the re-use of materials in the production cycle.

The re-use of waste water provides an alternative to capturing water from natural resources, whilst limiting water shortages. In the waste arena, material recycling is already a significant economic activity. Technology solutions, such as for example, bottle to bottle plastic recycling, help directly to protect the planet.

The transition to sustainable models requires a shift from a volume to a value economy: to 'make more with less'.

Today, people have realized the importance of these challenges, and that the present economic crisis provides an opportunity to create this new green economy.

Modern technologies, research and innovation will require colossal investment to rise to the environmental challenges. Some countries, such as China and the United States, whose stimulus plans put the environment at the heart of their investment – have understood this well.

But financing and political will are crucial to this battle, and it is essential that Europe and other developed and even developing countries move strongly in this direction.

Today in Europe we are well equipped for this global race to the new economy: the competitiveness clusters are real motors for R&D and French and European companies have unquestioned expertise and global reach, positioning them well in many markets.

But we must be careful not to let the crisis slow these trends: we must continue to innovate, internationalize, take calculated risks and throw ourselves wholeheartedly into the global competition.

Inventing a sustainable post crisis society is the only option for the good of the environment but also, I believe, a strategic turning-point for Europe. If Europe wants to stay in the race, it – and its companies – must make this a strategic priority.

Driving blind

When interviewed about Europe's future growth drivers, the first response of our global panel was ... a non-response. Forty per cent were unable to mention any opportunity for growth in the crisis context and a quarter declined to identify the most promising business sectors. However:

- **Europe's telecoms industry** - notably in equipment - is viewed as a growth driver (the most mentioned sector, by 16%). Our panel believes that key telecoms players will lead recovery despite big industry challenges around growth, convergence, business transformation, technological change and increased regulation[2].

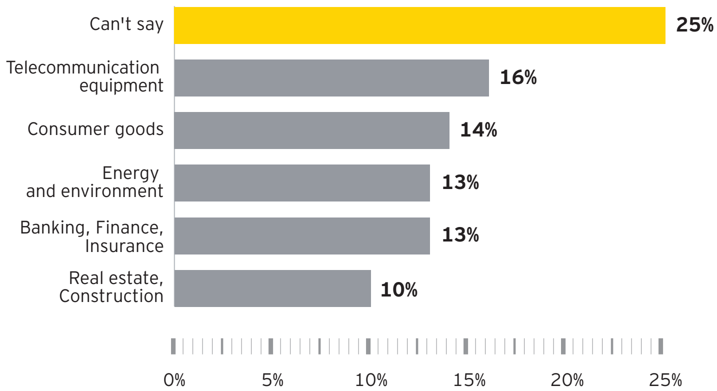
- **Consumer products** manufacturers are also expected to help pull Europe out of the crisis (14%).To succeed anew in the global market place, they will have to woo back skeptical consumers, cut costs, sensibly tackle climate change, optimize their supply chain and manage volatility in commodity and energy prices. This may affect their FDI potential as well.

- **Climate change and sustainability** are no longer corporate luxuries: 13% of our panel thinks that Europe may benefit from leading-edge technologies in renewable energy and environmental solutions. In a recent study by Ernst & Young, 90% of our largest clients say they are now undertaking climate-change related initiatives: investing in green-tech, alternative energy and sustainable projects, or developing green products and services to meet consumer demand.

- **The finance industry**: 13% of respondents said that there will be no recovery without credit to fuel corporate development, regulatory changes and increased certainty about asset valuations.

- **As for real estate**: panelists believe stabilization and liquidity are prerequisites for a return to growth.

The top five sectors to help Europe's recovery



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders
Total > 100% many possible answers

2. From *Industry 360°: The Ernst & Young source for global industry insights* (2009).

Longer term

Looking East

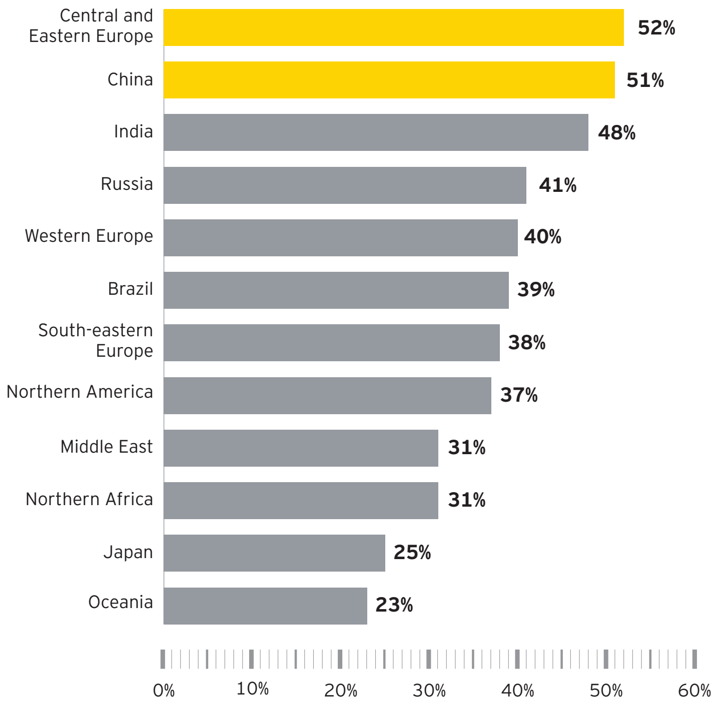
The economic downturn is unlikely to stop the global center of economic gravity moving east. Europe is considered - by risk-averse investors - to be the most attractive business location today, and ranks ahead of China in its perceived ability to overcome the economic crisis. Business decision-makers however believe the post-crisis world will see the eastward shift continue.

"Companies from developed economies will continue to expand in emerging markets to grow their business"

Companies from developed economies will continue to expand in emerging markets to grow their business, improve their cost structure and/or tap skilled labor pools. Evidence from earlier recessions has shown that the majority of companies respond with 'sensible' caution. However, those that later emerged strongest had clearly identified opportunities to sustain development during the downturn and had taken strategic decisions that subsequently distinguished them from competitors.

Because Western economies are shrinking, the growth of the BRICs compared with developed economies is faster than ever. While future generations of Westerners repay money borrowed for stimulus packages, Eastern economies will be able to spread the burden across enlarged economies, delivering growing tax revenues. A prolonged recession, or a slow recovery in the developed economies, will accelerate the eastward shift of economic power.

Most attractive regions over the next 3 years



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders
Total > 100% many possible answers

Saskia Sassen

Professor of sociology at Columbia University. Author of *The Global City* (2001) and *Territory, Authority, Rights* (2008).

Inventing specialized growth

"There is no such entity as "the" seamless global economy with clear hierarchies. The reality is a vast number of highly particular global circuits. Some are specialized, others not; some are worldwide, others regional.

In my research on global cities, a first step is always to identify the specific global circuits on which a city is located. This often brings out particular and important specialized differences.

For instance, Mumbai is today on a global circuit for real estate development investment, whilst a US steel factory seeking specialized financial or corporate services to go global would turn to Chicago, not New York.

There is less competition among cities and more of a global/regional division of functions than is commonly recognized.

A second major trend is the shift to a multi-polar world. European and Asian cities have gained ground in the global economy: US cities have lost ground.

Europe has a far more distributed geography of advantages than we see in Asia or the US.

Europe's smaller cities have emerged as far more significant players in the global economy. Two decades of expanded globalization has seen sharp growth in the number of major and minor global cities. Copenhagen, say, has emerged as a sort of global platform –a Dubai in Europe. Meantime, older zones of influence have strengthened; witness Madrid's major investments in Latin America.

Finally, an urban economy needs to be highly diversified, to prevent the virus of a crisis spreading. So continental European cities have a big advantage, because financialization is far lower than in the UK, the US, or such city-states as Dubai."

Juan Ignacio Vidarte

Director General Guggenheim Museum Bilbao, Chief Officer for Global Strategies, Solomon R. Guggenheim Foundation.

Inventing cultural growth

"Bilbao is the perfect example of the way culture and cultural infrastructures can be effective tools in urban regeneration.

The Guggenheim Museum Bilbao project was launched in 1992 in the midst of a profound economic crisis, very high unemployment, and some skepticism. Today, one million people per year visit the Museum, two-thirds from abroad. The transformation into a more cosmopolitan, internationally-oriented city fostered by the Museum has also had a major economic impact.

Urban transformation means new walkways, bridges, apartments, services - restaurants, hotels, transportation, shops - boosted by public and private investment: a level of activity that did not exist before.

Such transformation is only possible within a coherent plan, which here was designed by the region, the city, and private partnership – the Solomon R. Guggenheim Foundation. The resulting project reunites public and private participation at its roots, management, and operation. But success must be built on high quality content. The Guggenheim Museum Bilbao is an outstanding international institution offering an original experience based on an Art Program that combines presentations from the Collection - shared between all Guggenheim museums - with temporary exhibitions capable of stimulating visits. Since 1997, the Museum has featured 102 exhibitions, some of them in leading positions in the rankings of most visited shows worldwide.

Change was necessary, but change is very difficult. Transformation demands resources as well as ambition; it requires long-term leadership, and consensus.

Last, but not least, is the contribution to the recovery of part of the city's self-esteem and confidence, which makes us keep working on other transformations."

Urban attraction

At a local level, investors clearly have greater confidence in the ability of cities with international qualities - or global cities - to emerge from the current situation than in the recovery capacity of their second-tier rivals. Despite current difficulties, London and New York are seen as the clear leaders with the capacity to rebound from the crisis. These global cities have become clusters of education, entrepreneurship and opportunities, drawing the most able talent from around the world.

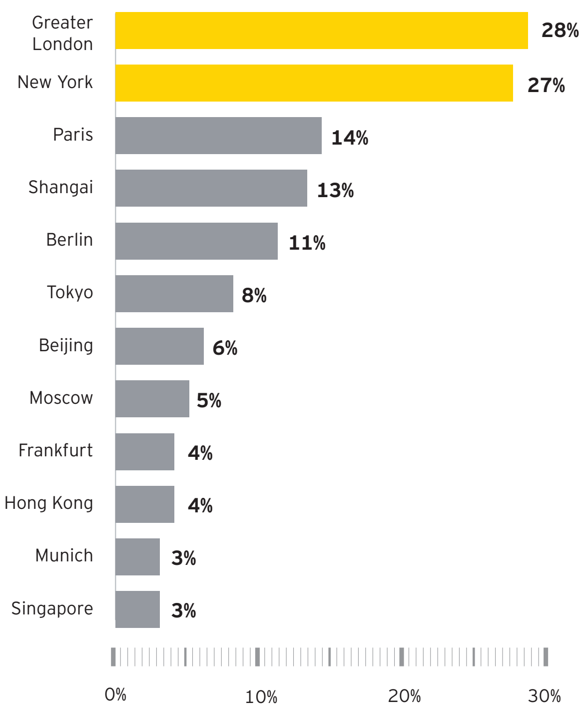
The primacy of long-established centers in the developed world - including Europe's capitals - is being challenged by emerging Asian cities such as Shanghai and Bangalore and by regional cities acquiring international expertise. Investors now have confidence in the innovation capacity of global cities in high-growth economies. When asked where the next Google or Microsoft will emerge, Shanghai and Mumbai are seen as more credible alternatives than US innovation leaders New York and Silicon Valley, or London's global financial center.

"Global cities have become centers of education, entrepreneurship, job opportunities and talent"

Regional cities with international characteristics offer lower operational costs to international investors, less-clogged transport and logistics networks, easier access to local business networks and a more stable workforce. As demographics mean that there are increasing numbers of cities with populations of more than a million, these secondary centers acquire many of the virtues of the global centers with fewer inconveniences.

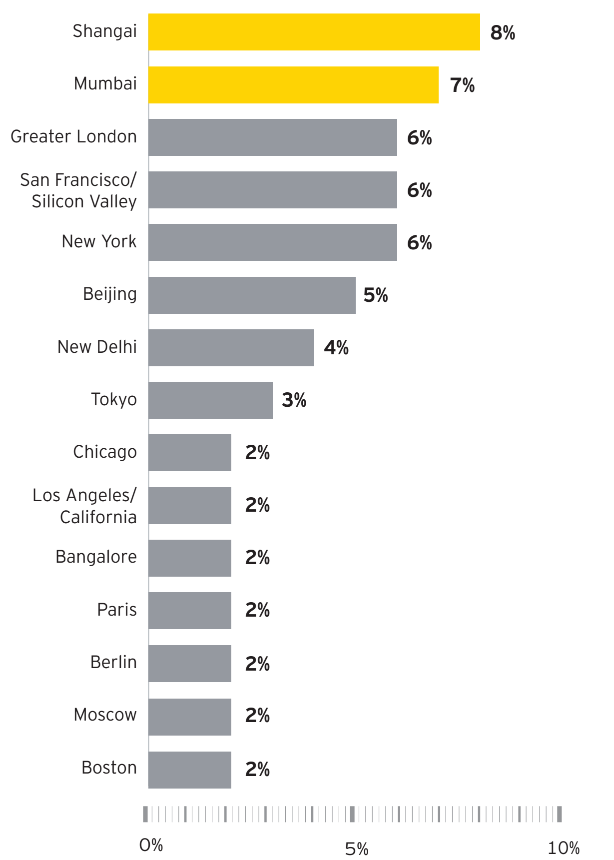
It may be that newer, expanding cities, which are still building their essential infrastructure and developing 21st century lifestyles, have more latitude to experiment, providing more fertile ground for innovation in sustainable growth industries.

Global cities that have the best ability to rebound in a crisis context



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders
Total > 100% many possible answers

The new "Google" or "Microsoft" is more likely to emerge from...



Source: Ernst & Young's 2009 European attractiveness survey
Respondents : 809 international business leaders
Total > 100% many possible answers

Europe's new business model: inventing growth

It is clear that Europe will not remain a winner without reinventing its growth strategy. The current period sees global players - including Europe - jostling to be tomorrow's front runners. Europe may continue to draw on its historic and established strengths - demographics, stability, productivity, and consumer demand. But a new business model must ultimately be found. In this section, we suggest key challenges for Europe's attractiveness and competitiveness.

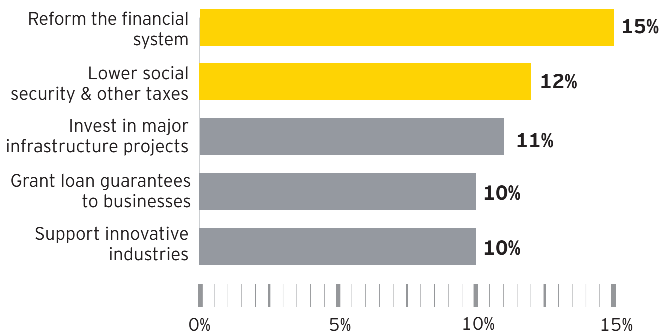
Reforms wanted

When asked about government initiatives to stimulate growth, investors are clearly divided between quick fix, "shovel ready" measures and longer-term strategic initiatives. Short-term initiatives include reforming the financial system (today's top priority, cited by 15%) and lowering taxes (lower payroll charges 12%, lower consumer taxes 9%). Longer-term measures turn to investment in infrastructure (11%).

Our 809 respondents are calling for a sweeping reorganization of Europe's economy, a radical transformation of its most mature industries - those most affected by the crisis, and those most to blame for contributing to climate change. They are sensitive to a revision of strategic investments at European and national levels, but even more sensitive to the power of entrepreneurship. They note the failure of models arising from the previous industrial revolutions, which the crisis has clearly underscored.

"Would be investors favor diverse stimulus measures"

Top 5 actions expected from European governments to stimulate growth



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders
Total > 100% many possible answers

Samantha Davies

Third to cross the finishing line in the Vendée Globe round the world yacht race

Inventing winning growth

"Sailing around the world non-stop single-handed in the Vendée Globe is really a team effort. I'm the skipper, but if the boat is well-prepared, and everything is well-tested, you can get more sleep, you know when to take a reef out.

Building a team is not necessarily about having the very best people for each job, but having a group that communicates well to solve problems. Whenever I talk to people in business they tell me the same dynamic is at work.

Competitive sailing is the flagship of a marine industry that creates wealth and jobs. My degree is in engineering. My ambition is to have a budget sufficient that I can really work on innovation, both in performance and comfort. In my experience, more comfort leads to greater performance, so it's ultimately the same thing.

There are big challenges in yacht racing around design and materials, and especially electricity supply and electronics – issues that arise on leisure yachts, ships, in hydro-generation in rivers and on land.

On the Vendée Globe I took a trailed hydro-generator, which worked well, but caused lots of drag. I'd love to be able to work with the manufacturer to improve it. We work with programmers of navigation systems and autopilots. Making electronic devices easier to use is a huge challenge, and this applies to all digital gadgets.

But innovation takes investment. I need €8m to build a new boat and prepare to win the 2012 Vendée Globe. Sponsors, like other innovation investors, get great returns, but need the vision and resources to take a long-term view."

“I wonder whether the economic crisis isn’t a great opportunity for innovation.

The UK is probably ahead of much of Europe in developing mechanisms and the necessary infrastructure to turn ideas into products, but a lot of progress has been made across the continent.

Our company, which seeks to identify promising ideas on the laboratory bench in universities and companies; provide management, financial, or marketing skills that may be lacking; and obtain or supply early-stage funding, is still unusual.

But it works. Among our portfolio of start-ups are companies developing treatments for cancer and obesity, designing fuel-cell household boilers that also generate power, and perfecting innovative light-weight drives for electric vehicles.

Our start-ups have created 1,000 jobs. But beyond those, an infrastructure of support has developed, in the UK at least, of experienced start-up managers, as well as patent agents and lawyers, accountants, tax advisors and market research firms expert in supporting start-ups. They are also learning to work on the basis that their upside comes from the success of these ideas.

In Europe, our technology strengths aren’t necessarily in IT, but in medicine and life sciences, engineering, and clean tech.

We have the ideas, the skills, the infrastructure and the talent. But the economic crisis has made venture capitalists more cautious. We have to recognize that proof-of-concept funding must take the form of grant aid. Then we have to solve the challenge of early-stage funding.

Susan Searle

CEO of Imperial Innovations, a quoted technology company established by Imperial College, London, UK

Inventing faster growth

Creative (r)evolution

The promotion of innovation and measures in support of innovation are now at the very top of investors' priorities. Business decision-makers were asked to put the financial crisis to one side and reflect on the primary reforms necessary to enhance Europe's status on the international stage. Today's brutal reality check seems to have changed people's vision of Europe, with an associated shift in priorities.

A quarter of respondents make a direct connection between Europe's attractiveness and the improvement of education in innovation-intensive sectors. The global battle for competitiveness and mastery of the knowledge economy is growing. Demand for skills is increasing. The world's brightest students are drawn to the world's best universities, and often stay on after graduation.

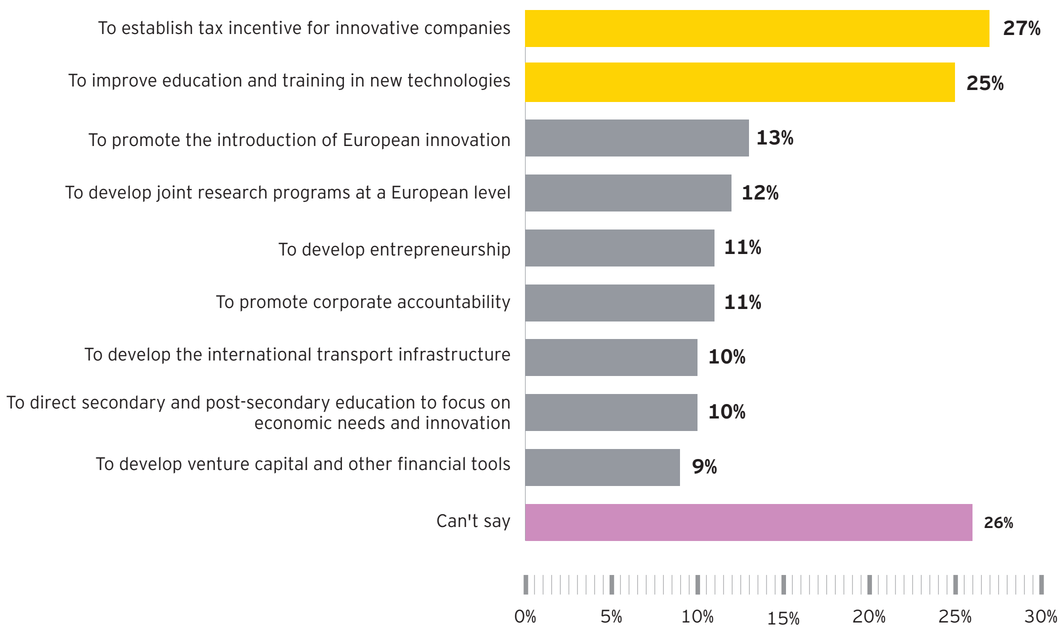
Our panel strongly affirms (11%) that Europe's entrepreneurial fabric will be made of start-ups and corporate spin-offs in innovation hot-spots.

Former issues of labor market flexibility and gripes about impediments to business in Europe - high social charges in Germany and restrictive work hours in France - have paled in significance. Only 2% of respondents now seek more labor law flexibility, compared with 42% in 2008.

Many businesses have adopted disruptive technologies to improve productivity, develop new products and services and/or create new business models - transforming major industries. Our global panel believes this is the model for Europe's future growth.

"Creativity depends heavily upon a company's ability to manage an innovation culture"

Reforms to make Europe a real leader in international competitiveness and attractiveness



Source: Ernst & Young's 2009 European attractiveness survey
Respondents: 809 international business leaders
Total > 100% many possible answers

Europe's city-zen

Europe's future will spring from the knowledge and intelligence assembled in its cities. In March, the European Economic and Social Council released recommendations for balanced and sustainable urban development, and identified challenges and opportunities.

Urban development is a powerful global trend. The world's cities are adding 200,000 citizens a year, and by 2030, 60 or 80% of the world's population will be urban. Cities are increasingly where wealth creation and origination of products and services happens. Already, 75% of global added-value is produced in cities and their inhabitants generate 9 out of 10 innovations.

National capitals can no longer be complacent in their primacy. Globalization has brought global rivalry, for investment and talent not only between capitals, but also with second-tier cities with economic specializations that give them global clout. The development of cities is both a challenge and an opportunity. City growth and redevelopment provides multiple markets for business, and opportunities for innovation in transport, housing, education, security, culture, sustainability and services.

"European cities are a key attractiveness asset. Some of their merits are hard or expensive to imitate"

European cities are a key attractiveness asset. Some of their merits are hard or expensive to imitate. Our panel is seduced by their exceptional culture and history (27% of respondents), effective international accessibility (26%) and unique lifestyle (25%). But faced with blossoming cities in the east and elsewhere, Europe's cities cannot rest on their heritage and park benches. They must accommodate growing, increasingly cosmopolitan populations, modernize their accommodation and infrastructure, and become centers of innovation and ideas.

Dr David Fisher
Founder Dynamic Architecture, Italy

Inventing happy growth

"To encourage invention and , we have to think about the quality of life.

Ask yourself: "where do I want to live? How do I want to live? What makes me happy?"

Today, we are living in cities that have scarcely changed since the invention of the car. It is time to turn the page.

We need new neighborhoods where people can combine their personal life, social life and working life without car-filled streets, without wasting hours traveling each day. Time is life.

To achieve better buildings and better cities, there are five pre-conditions. First, a building should be sound economically. Remember that the beauty of Florence, where I live, arose because of the Medici family – who were successful bankers.

If it is economically viable, the next most important criterion is functionality: it is the space inside, where people spend their lives, that is most important.

Of course, today a building, a neighborhood, also has to be environmentally sound. Then there is the engineering: it must be waterproof, soundproof, and economical to maintain. Finally, and only then, you have to think about the appearance. Too many buildings are beautiful, but inefficient.

To achieve this, the future of construction lies in prefabrication, which I will use for my Dynamic Tower. We should make buildings in factories, as we do cars, and assemble them on site. They would be cheaper, easier to repair, and have flexible space.

If more people can live in better homes and better cities, they will be happier, and have more time to be inventive in ways that will help others.

My belief is that whatever is correct is beautiful: beautiful is not always correct. Cities of the future can be beautiful, but first of all they should offer good quality of life."

Entrepreneurial and responsible government

Governments are center-stage, amid tightening regulation and support for strategic industries. State capitalism, common in emerging countries (where around one-fifth of the largest companies are state-owned) is making a comeback in the western financial sector, reversing decades of European business privatization. The bail-out of banks across Europe and the US on an unprecedented scale has put government at the heart of finance and shattered self-regulation, calling free-market thinking into question.

Most governments are reluctant investors. They see their new-found role as temporary. But the lesson of past banking crises, in Scandinavia and elsewhere, is that subsequent withdrawal by the state is a long and complex process. This puts even more pressure on governments, which are now being asked to clear away the private sector car crash, then provide the fuel and the GPS for a route back to economic growth.

"The bail-out of banks across Europe has put government at the heart of finance"

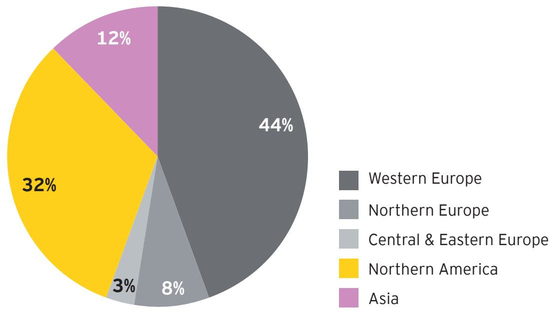
The first principle of responsible government is that it must not retrench into protectionism in Europe or anywhere else. Whatever the appeal of trying to protect national jobs, the globalization of business has done much to strengthen economies and lift people out of poverty the world over. Protectionism, if it comes, would surely slow the recovery and trigger political and market instability.

The second principle is that it is critical for government to be flexible, yet maintain fiscal responsibility; to have an easily-identifiable vision of what is efficient for business and make clear choices about which sectors are truly strategic, resisting short-tem social and political pressures; and to ensure state initiatives are measured and assessed by independent third parties. New interventionist public policies must be akin to entrepreneurship...government style.

Reforms will be truly effective only if government and business do more to promote Europe as an agent of globalization. Europe's economic weight is undervalued (25% of world's GDP, 40% of FDI flows) and its diversity is the unique selling point for investors.

Methodology

Nationality of the companies surveyed



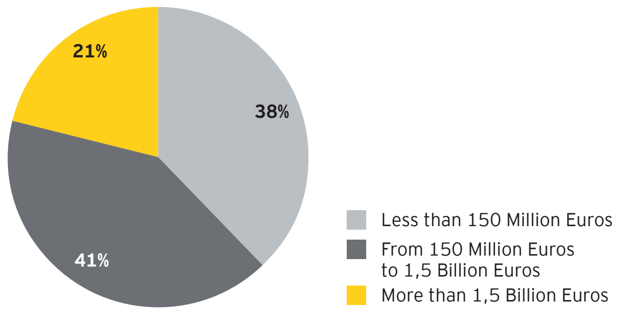
The Ernst & Young's 2009 European attractiveness survey is based on a twofold, original methodology that reflects:

- The "**real" attractiveness of Europe** for foreign investors. Our evaluation of the reality of FDI in Europe is based on Ernst & Young's European Investment Monitor (EIM). This database tracks FDI projects that have resulted in new facilities and/or the creation of new jobs. By excluding portfolio investments, mergers and acquisitions, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.
- The "**perceived" attractiveness of Europe and its competitors** by foreign investors. We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by Institut CSA in February and March 2009, via telephone interviews, based on a representative panel of 809 international decision-makers.

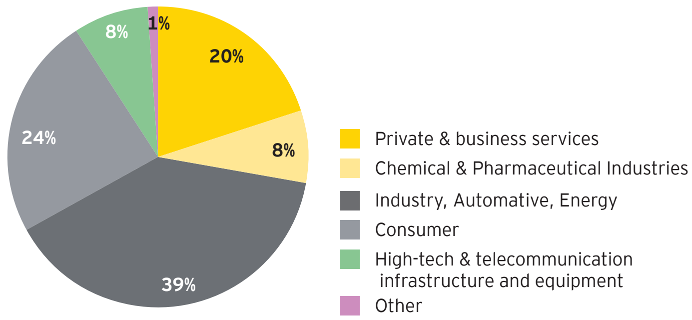
The "real" attractiveness of Europe

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

Size of the companies surveyed



Sector of activity of the companies surveyed



The Ernst & Young European Investment Monitor, researched and powered by Oxford Intelligence, is a highly detailed source of 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 not double-counted in later years.

The following categories of investment projects are excluded from EIM:

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

The "perceived" attractiveness of Europe and its competitors

The survey was conducted with an international panel of corporate leaders of all origins, with clear views and experience of Europe:

- 57% European businesses
- 32% North American businesses
- 12% Asian and other businesses

Of the non-European companies, 57% have established operations in Europe. As a result, an overall companies (89% of the 809) interviewed have a presence in Europe. We built a global panel from all business models and sectors, to further guarantee a representative opinion with regard to the diversity of international strategies:

- SMEs (small and medium enterprises),
- Multinationals
- Industrial companies, as well as service providers

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

- Industry/automotive/energy
- Business-to-business and business-to-consumer
- Services
- Telecoms and hi-tech
- Consumer goods
- Real estate and construction

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0904SG1141 - Studio Ernst & Young

Photos credit: Fotosearch.

Printed on ecological non-chloride paper.

EYG no. AU0289