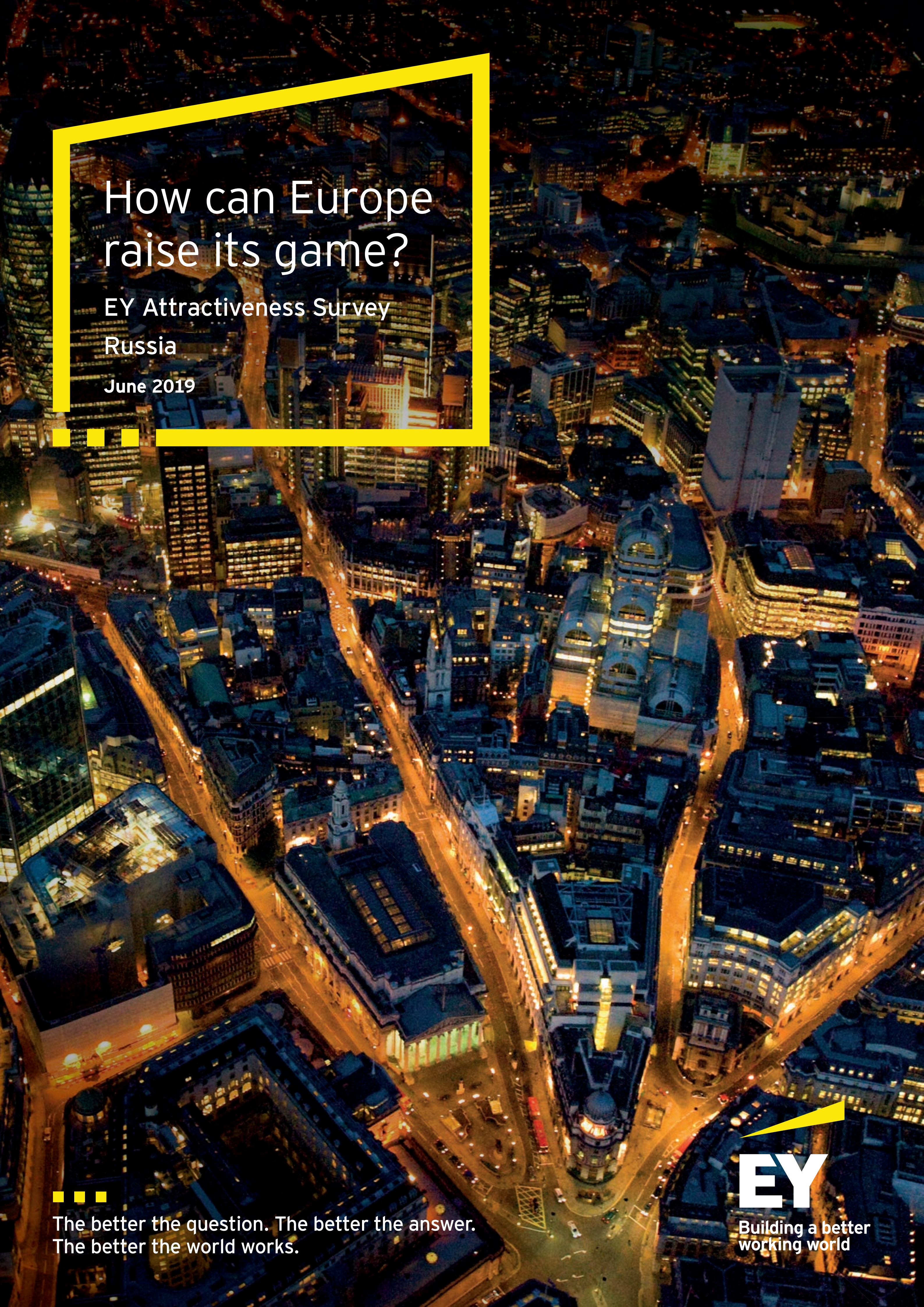

# How can Europe raise its game?

EY Attractiveness Survey

Russia

June 2019

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

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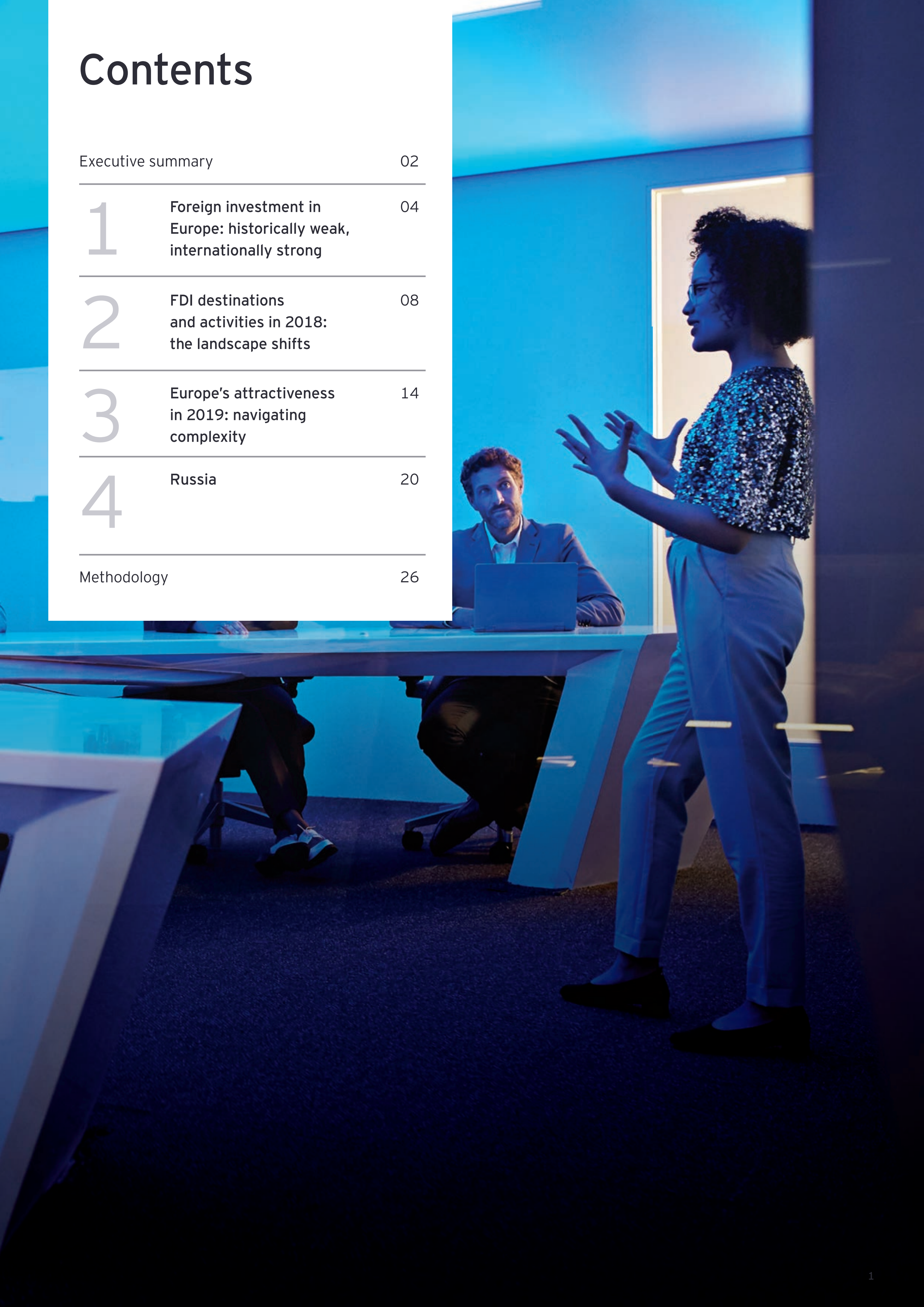
Building a better working world


OBJECTIVES

# Contents





# Executive summary

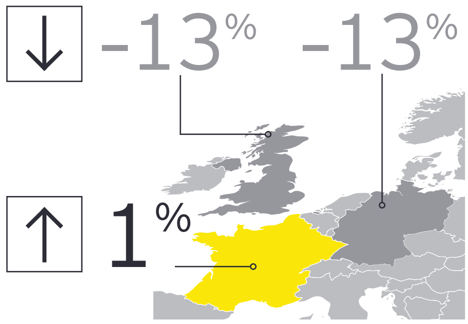
## FDI in Europe drops for the first time in six years

**Europe secured**

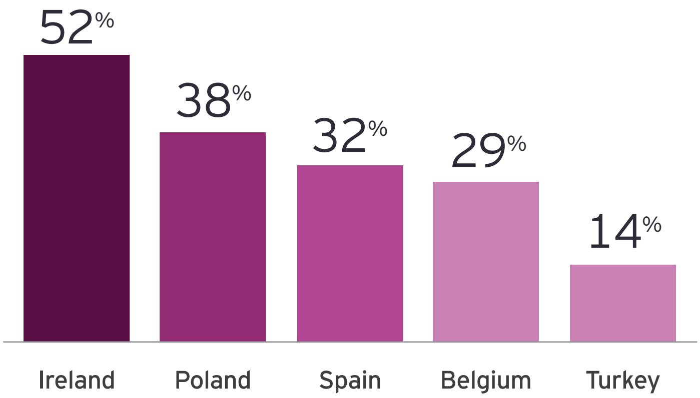
6,356 **FDI projects in 2018**

4% **decrease from 2017**

Europe's three largest economies take a hit as FDI plummets 13% in the UK and Germany and only grows 1% in France.




**Other countries play catch up as FDI surges in**




Headquarters nosedive

23%

but R&D FDI increases

16%

Investment increases

5%

in the digital sector, Europe's largest FDI industry, but declines

18%

in business services.

## Businesses still look fondly at Europe

**Globally, Europe is still perceived by our panel of business leaders as the most attractive region for investment.**

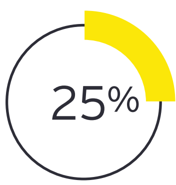
56%

cite **Western Europe** as one of their top three investment destinations compared with 53% last year.

**Central and Eastern Europe (CEE)** is PERCEIVED as the second most attractive region.

30%

of businesses say Paris is the most attractive city for investment compared with 37% last year.




As Brexit looms, only 25% of businesses say London is one of their top three cities for investment, down from 34% last year.

## Brexit and political tremors rattle investor confidence

38%

**Brexit is now seen as the most significant risk by 38% of investors** to Europe's attractiveness. Last year, it was only the fourth.

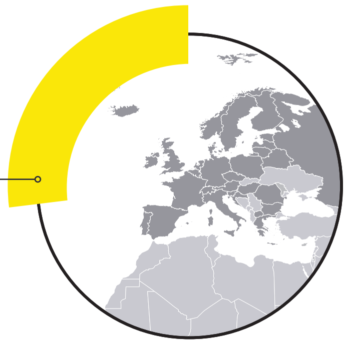
**Political instability in the EU** and the **rise in populist** and **protectionist feelings** are the **second- and third-greatest concerns** for investors.

**Consequently, investors are cautious about their short-term plans:**

Only

27%

of businesses plan to establish or expand operations in Europe this year, compared with 35% last year.



Investment plans are now at a seven-year low.

## International investors crave talent, predictability and all things digital

48%

of businesses say **access to skilled labor** is the most critical criteria in determining where they invest in Europe.

3/4

of European businesses say **skills shortages** are damaging productivity and profitability.

2/3

say they **damage top-line growth.**

52% say **the availability of technology skills** is **"critically important"** in shaping investment decisions.

**Stability and predictability of taxation** are seen as more important than actual tax costs in determining where businesses invest.

# 1 Foreign investment in Europe: historically weak, internationally strong

## 6,356

projects in Europe last year, a 4% annual decline from 2017.

# FDI remains high, but declines for the first time in six years

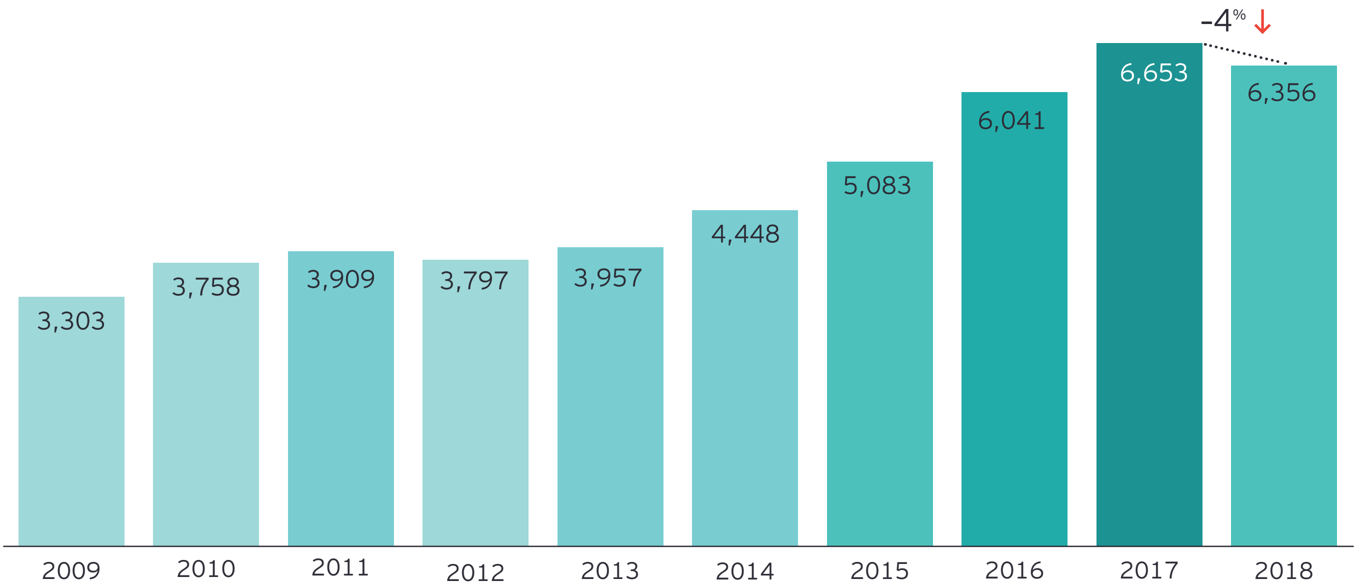
In total, businesses from around the world completed 6,356 projects in Europe last year, a 4% annual decline from 2017.

The downturn was caused by a sizeable 13% decrease in FDI in Europe's two largest economies – Germany and the UK – which together account for around one-third of FDI in Europe. In more positive news, investment in Spain, Poland and Ireland increased by more than 30%.

Despite the annual decrease, FDI in Europe is still at its second-highest level since EY began compiling this data in 2000. In fact, the number of FDI projects completed in Europe in 2018 is 5% ahead of 2016 levels, which was a record high at the time.

In 2018, FDI remained primarily driven by intra-European investment. FDI projects within Europe slightly decreased (by 2%), whereas non-European FDI into Europe declined by 8%.

FDI projects in Europe: 10-year look-back (number of FDI projects)




Source: *EY European Investment Monitor (EIM) 2019*.


The US is the largest investor in Europe, accounting for 22% of European FDI in 2018

## Growth prospects and global trade are major causes of concern

Declining economic growth across Europe undoubtedly contributed to the annual slowdown. GDP growth decelerated to 1.8% last year from 2.4% in 2017.

So too did the rising tide of global protectionism. The US-China trade war grabbed the headlines last year, but European exporters continued to suffer from rising trade barriers around the world.

Factors outside Europe also contributed. Weak economic growth in the US coupled with tax reform in late 2017 caused US investment in Europe to increase by only 3% last year, down from an average of 8% growth in the prior four years. The US is the largest investor in Europe, accounting for 22% of European FDI in 2018, so any dip has a significant impact.

Meanwhile, China's economy grew by 6.6% in 2018, the slowest rate in almost three decades, and Japan's economy grew by only 0.7% in 2018 compared with 1.9% the previous year.

This year's survey exposes a growing divide in sentiment toward Europe between companies with and without a European footprint. Illustrating this, the proportion of surveyed businesses without European operations that rank Europe as one of their top three investment destinations fell from 62% to 51% this year. By contrast, sentiment did not dip at all among businesses already present in Europe.

In short, businesses with a European presence are less deterred by the growing economic and political headwinds than those without.

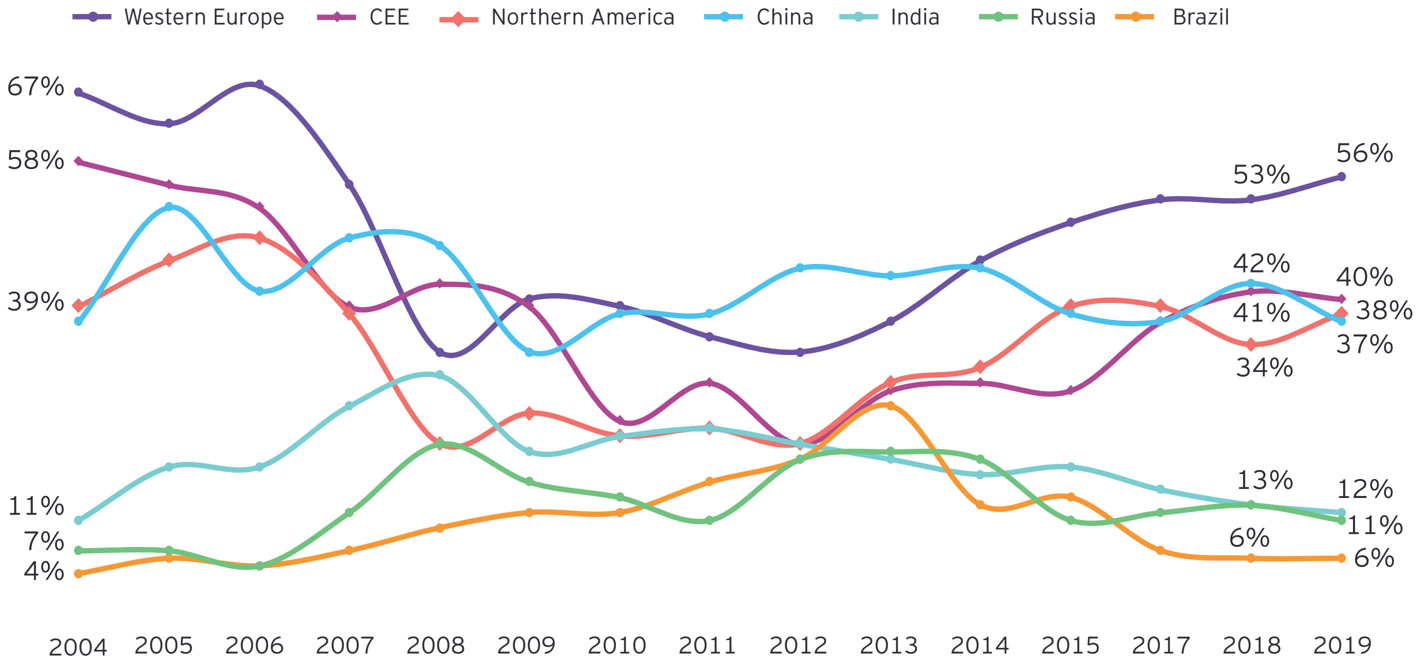
# Despite Brexit, Europe fares well on the global stage

Prolonged uncertainty about the UK's future relationship with the EU following the Brexit vote is undoubtedly denting FDI in the country and, in certain sectors, its close trading partners. At the mid-point of 2019, the future economic and political relationship between Europe and the UK remains in doubt, Europe's economic growth forecasts are languid, and populism continues to gain momentum.

But investors still look fondly on Europe. Tellingly, 56% of surveyed businesses cite Western Europe as one of their top three regions globally in which to establish operations – a marginal increase on the 53% that did so last year. In parallel, CEE is perceived by our sample as the second-most attractive region globally.

Despite the economic and political headwinds, the sheer size and diversity of Europe's economy makes its attractiveness resilient.

## In general, which of the following regions do you think are currently the top three most attractive regions in the world to establish operations?




Source: *EY Attractiveness Survey Europe June 2019* (total respondents: 506).

Please note, the survey was not conducted in 2016.

# 2

# FDI destinations and activities in 2018: the landscape shifts

In 2018 the number of FDI projects in the UK dropped by its lowest level since 2014.

## Top 20 European FDI destination countries

| Rank | Country | 2017 | 2018 | Change 2017/18 | Market share (2018) |
|---|---|---|---|---|---|
| 1 | UK | 1,205 | 1,054 | -13% | 17% |
| 2 | France | 1,019 | 1,027 | 1% | 16% |
| 3 | Germany | 1,124 | 973 | -13% | 15% |
| 4 | Spain | 237 | 314 | 32% | 5% |
| 5 | Belgium | 215 | 278 | 29% | 4% |
| 6 | Poland | 197 | 272 | 38% | 4% |
| 7 | Turkey | 229 | 261 | 14% | 4% |
| 8 | Netherlands | 339 | 229 | –[1] | 4% |
| 9 | Russia | 238 | 211 | -11% | 3% |
| 10 | Ireland | 135 | 205 | 52% | 3% |
| 11 | Finland | 191 | 194 | 2% | 3% |
| 12 | Serbia | 118 | 119 | 1% | 2% |
| 13 | Romania | 126 | 109 | -13% | 2% |
| 14 | Italy | 63 | 103 | 63% | 2% |
| 15 | Hungary | 116 | 101 | -13% | 2% |
| 16 | Lithuania | 74 | 83 | 12% | 1% |
| 17 | Portugal | 95 | 74 | -22% | 1% |
| 18 | Bosnia and Herzegovina | 62 | 73 | 18% | 1% |
| 19 | Sweden | 108 | 73 | -32% | 1% |
| 20 | Czech Republic | 134 | 65 | -51% | 1% |
| | Other countries | 628 | 538 | -14% | 8% |
| | Total | 6,653 | 6,356 | -4% | 100% |

Source: *EY European Investment Monitor (EIM) 2019*.

> “
>
> FDI growth stalled in France in 2018 following two years of huge gains. The number of new FDI projects rose 1% to 1,027 last year.

[1] Due to a change in methodology in the Netherlands in 2017, the 229 FDI projects reported for 2018 actually compare with 224 FDI projects in 2017.

# Countries: the mighty fall, the challengers rise

**The UK: manufacturing FDI slumps on Brexit fears**

Brexit uncertainty caused UK FDI to plummet 13% to 1,054 projects in 2018, its lowest level since 2014. The annual decrease was primarily caused by a 35% decrease in manufacturing FDI projects to 140 – the fewest manufacturing projects established in the UK since 2013. The number of newly established headquarters halved from 95 in 2017 to 48 last year. Only four years ago (in 2015), 150 new headquarters were set up in the UK.

Meanwhile, sales and marketing projects, which typically account for the largest proportion of FDI in the UK, declined 4% and R&D projects decreased 17%. By contrast, logistics projects were up 7%.

**France: damage control**

FDI growth stalled in France in 2018 following two years of huge gains. The number of FDI projects rose 1% to 1,027 last year. This followed annual increases of 31% in 2017 and 30% in 2016. Although the annual rate of growth decreased significantly, France can take comfort from the fact that FDI did not decline by the extent it did in other major European economies. For the first time, more R&D (144) and manufacturing FDI projects (339) were established in France last year than in any other European country. That said, French authorities remain concerned about the impact of the gilets jaunes (yellow vest) protests on FDI.

**Germany: FDI hit by weak economic growth and automotive production**

The number of FDI projects in Germany fell from 1,124 to 973 in 2018 – a 13% decrease. Decelerating economic growth, weak export growth, low unemployment and consumer spending restraint – all contributed to the downturn. Sector-specific issues are also at play: for example, production in the automotive sector decreased 7% on a seasonally adjusted basis in the second half of 2018 compared with the first half.[1] This was caused by a perfect storm of heightened potential for a hard Brexit and US tariffs, a slowdown in demand from China and tougher environmental standards.

**Spain: digital frenzy boosts FDI**

FDI increased by 32% to a record 314 projects in 2018 as a result of significant increases in investment in the digital sector, which more than doubled to 70 projects last year. There was also significant growth in the transportation, logistics and finance sectors. Perhaps in anticipation of greater demand, the number of sales and marketing projects surged 77% from 65 in 2017 to 115 in 2018.

**Belgium: strong growth across the board**

Belgium attracted 278 FDI projects in 2018 – a 29% annual increase. Being at the geographic and political center of Europe, the country is benefiting from the uncertainty caused by Brexit and supply chain reorganization strategies that started across Europe a few years ago. Logistics projects increased by 18% last year. In addition, the number of R&D and headquarters projects more than doubled in 2018.

[1] "Automotive industry: production down 7.1% in second half of 2018 in Germany's most important industry," Destatis, April 2019.

“Investment in Poland surged 38% to 272 FDI projects in 2018.

### Poland: industrial sectors drive FDI growth

Investment in Poland surged 38% to 272 FDI projects in 2018, making the country Europe's current sixth-largest market for FDI. Traditional industrial sectors such as transport, chemicals, logistics and machinery almost doubled to 127 projects in 2018 and now collectively account for 47% of total FDI in the country.

### Turkey: FDI is robust despite uncertainty

Despite pronounced depreciation of the Turkish lira and mounting political uncertainty, FDI is robust in Turkey. In total, 261 projects were executed in 2018 – a 14% increase. Although there are headwinds, investors are attracted to the large talented workforce that is available at competitive costs and the strong industrial base: 78% of FDI projects in Turkey are manufacturing facilities, primarily in the transportation, chemicals, agri-food and machinery sectors.

### Ireland: a Brexit-led investment surge

The surge of FDI in Ireland, jumping 52% to 205 projects in 2018, was caused by growth in investment in the digital, business services and finance sectors, which collectively increased 53% last year. Brexit is undoubtedly boosting Ireland's attractiveness as an alternative to the UK, but other factors are at play: for example, it maintains a competitive 12.5% corporate tax rate and has invested significantly in digital and financial skills.

# Sectors and activities: business-generating FDI recedes,

| Activity | FDI projects | Change | Market share |
|---|---|---|---|
| Sales and marketing | 2,511 | –11% | 40% |
| Manufacturing | 1,869 | –6% | 29% |
| Research and development | 605 | 16% | 10% |
| Logistics | 577 | 5% | 9% |
| Headquarters | 285 | –23% | 4% |
| Testing and servicing | 183 | 578% | 3% |
| Internal data center | 139 | 67% | 2% |
| Shared service center | 73 | –30% | 1% |
| Contact center | 62 | 3% | 1% |
| Education and training | 47 | 2% | 1% |

Source: *EY European Investment Monitor (EIM) 2019*.

# R&D investment surges

**Headquarters and sales-oriented FDI tumbles**

The number of sales and marketing projects dropped 11% to 2,511 in 2018. Even though investments in sales and marketing projects are typically smaller market-entry forms of FDI, historically, they are the largest component of foreign investment in Europe, accounting for 43% of all projects in the last five years. Therefore, a decrease in sales and marketing investment materially impacts total FDI levels.

The number of headquarters established in Europe fell by an even greater amount, plummeting 23% year-on-year to 285 projects.

The decline in both types of FDI reflects businesses' concerns about political uncertainty and declining demand for their goods and services in Europe, which in turn is caused by downbeat economic growth prospects.

## Industrial FDI resists, R&D grows

A total of 1,869 manufacturing projects were established in 2018, a 6% annual decline. This is a result of a combination of weakening economic growth prospects and uncertainty about the UK's trading relationship with the EU. Tellingly, manufacturing FDI nosedived 35% in the UK. Despite the annual decrease, 84% more manufacturing projects were established in 2018 than in 2013.

On a more positive note, R&D FDI increased 16% to 605 projects in 2018, underpinned by a 45% surge in digital R&D projects across Europe. In fact, 44% of R&D FDI projects were initiated by companies in the digital sector last year. Illustrating the long-term nature of the increase, R&D FDI has doubled in the last five years across Europe.

In parallel, supply chain reorganization strategies that started two years ago across Europe maintained a high level of FDI in logistics projects (+5%) last year.

1,869 projects

**A total of 1,869 manufacturing projects were established in 2018, a 6% annual decline.**

# 3

# Europe's attractiveness in 2019: navigating complexity

**10%**

of surveyed businesses plan to invest in manufacturing, supply chain and logistics projects this year compared with 16% last year.

# Investment plans drop

Faced with a downturn in growth expectations, businesses are easing off on FDI globally, including in Europe.

Only 27% of surveyed businesses plan to establish or expand operations in Europe in 2019, which is significantly less than the 35% that planned to last year. In fact, investment plans now stand at a seven-year low.

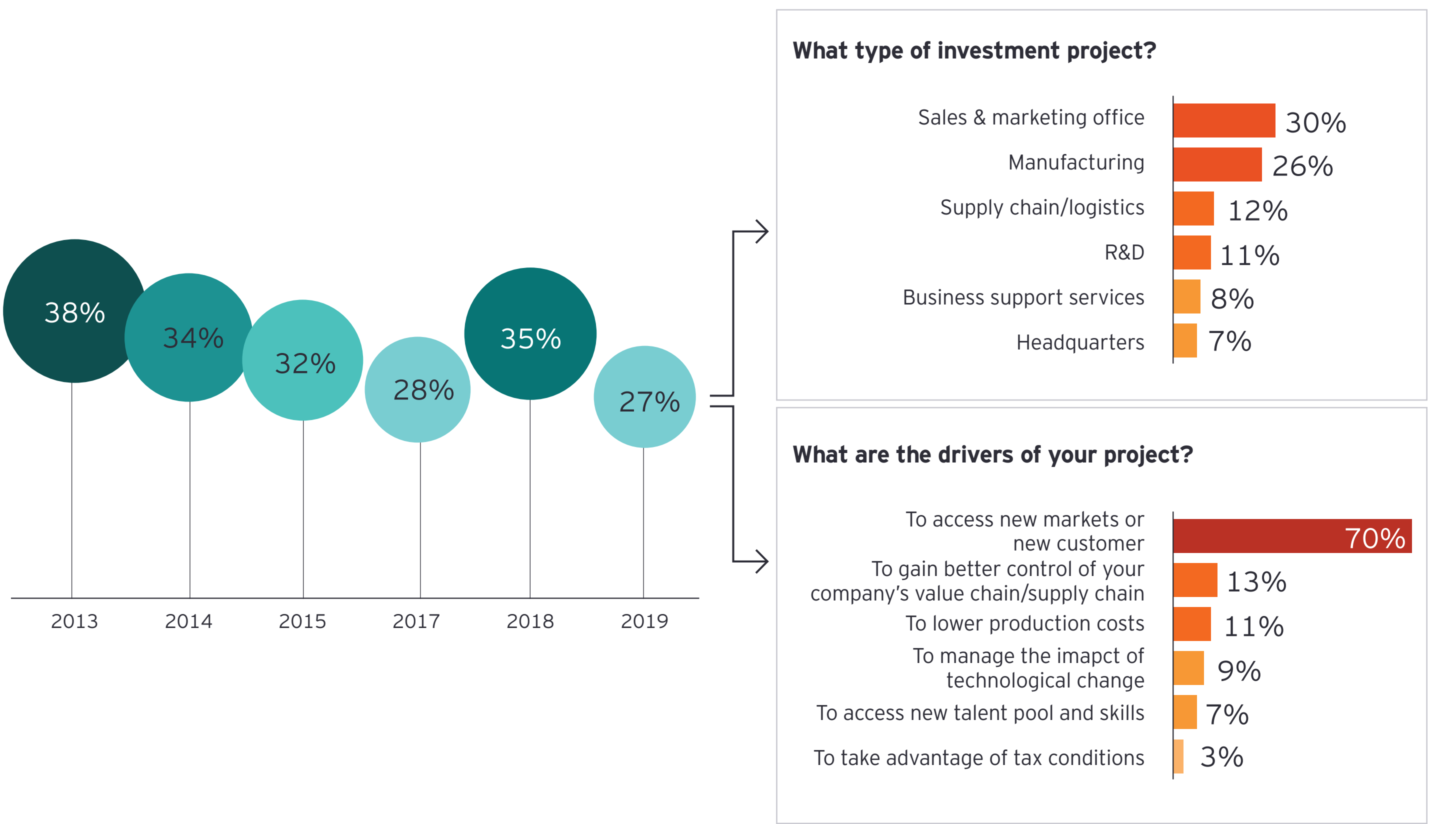
An imminent recovery in investment attractiveness looks unlikely. Only 37% of surveyed businesses foresee an improvement in Europe's attractiveness in the next three years, which is significantly less than the 50% that did so last year.

The decrease is primarily caused by decelerating manufacturing and supply chain FDI plans, which perhaps reflects the end of the supply chain reorganization cycle: only 10% of surveyed businesses plan to invest in manufacturing, supply chain and logistics projects this year compared with 16% last year.

Declining investment plans are undoubtedly a result of the cocktail of Brexit, wider political uncertainty and a weak economic outlook across Europe.

Furthermore, continuing US-China trade tensions, tighter credit controls in China and a more restrictive monetary policy in many large economies has dampened the outlook for global economic growth. Tellingly, the International Monetary Fund (IMF) predicted global GDP growth of 3.3% in April 2019, a significant decrease on the 3.9% growth predicted 12 months earlier.

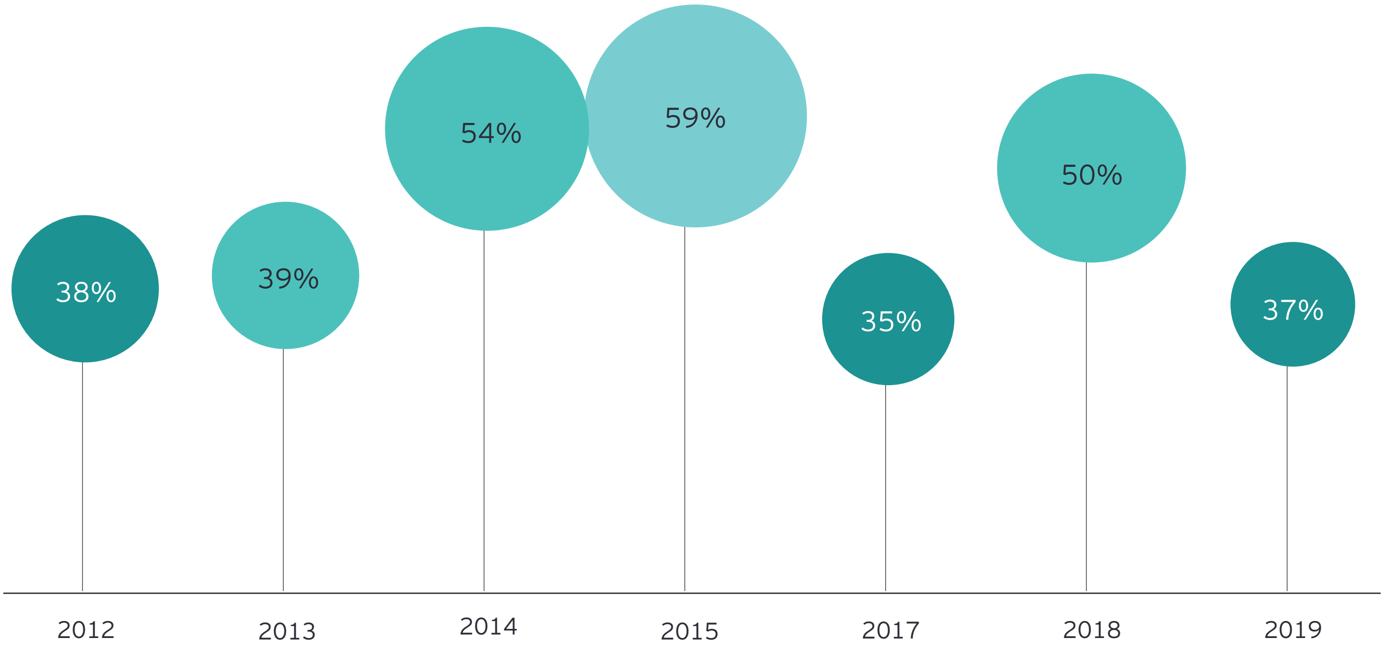
Does your company have plans to establish or expand operations in Europe over the next year?




Source: *EY Attractiveness Survey Europe June 2019* (total respondents: 506).

Note: The size of the chart indicates the percentage of investors who said "yes" to the above question.

To what degree do you think Europe's attractiveness will evolve over the next three years?




Source: *EY Attractiveness Survey Europe June 2019* (total respondents: 506)

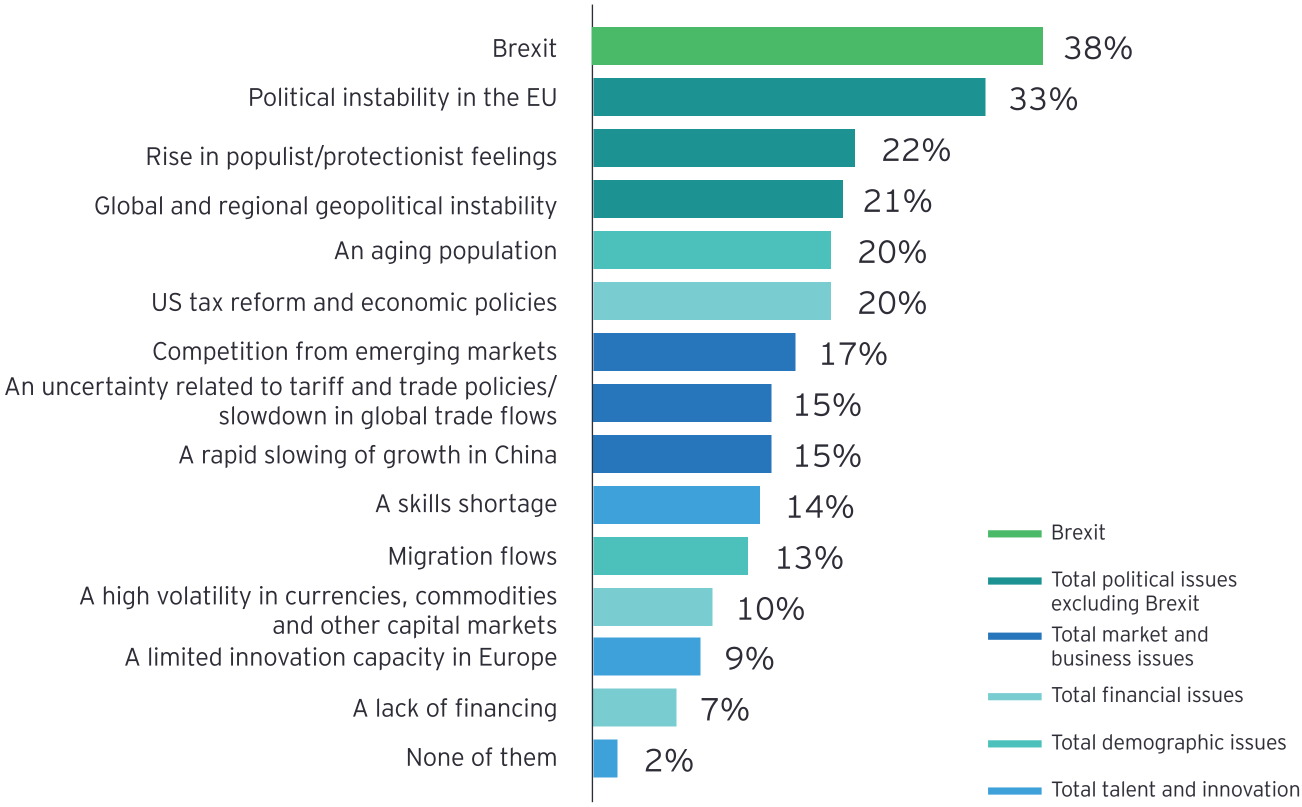
Note: The size of the chart indicates the percentage of investors who said "slightly or significantly improve" to the above question.


## Brexit plagues Europe's attractiveness, not only the UK's

At the time of our 2018 report, Brexit was certainly on businesses' minds, but most expected a fairly smooth and orderly transition from the status quo to Europe's new political and economic relationship with the UK. Fast-forward 12 months and turmoil ensues …

Survey participants are unsurprisingly alarmed. Thirty-eight percent cite Brexit as one of the top three risks to Europe's attractiveness in the next three years – a significant increase on the 30% that did so last year. This means Brexit is now the most significant risk to Europe's attractiveness; last year, it was only the fourth.

What are the main risks affecting the attractiveness of Europe in the next three years?




Source: *EY Attractiveness Survey Europe June 2019* (total respondents: 506)

A no-deal Brexit would mainly harm Europe's investment attractiveness through its impact on trade between the UK and the rest of Europe. A no-deal scenario would not only introduce tariffs on UK exports to the EU but also non-tariff frictions related to product standards, documentary requirements and border delays.

Because 44% of its exports of goods and services go to the EU, the UK will undoubtedly be the biggest loser from a no-deal scenario. But other European countries would be hit hard too. The United Nations Conference on Trade and Development (UNCTAD) estimates that EU exports to the UK would decrease by approximately US$35b in the event of a no-deal Brexit, representing 10% of total EU exports to the UK.[1]

Of course, the policy of the UK Government and the EU is to avoid this kind of scenario, and the impact on trade and FDI would be significantly softened if a deal is agreed. However, the stark impact of a no-deal outcome on trade explains why its possibility is hurting Europe's attractiveness. At the time this report went to publication, the UK Government was seeking to pass the Withdrawal Agreement and Political Declaration through its Parliament by the extended deadline of October 2019.

Brexit will damage Europe's attractiveness in other ways. Companies like the UK because of its abundance and mobility of skilled labor, but this could be compromised if Brexit reduces the level of immigration. More fundamentally, Brexit exposes weaknesses in the very institutions that hold Europe together and have made it such an attractive investment destination over the last 10 years.

[1] "Brexit. Implications for Developing Countries" UNCTAD, April 2019.

**Europe confirms its digital attractiveness**

| Sector | 2018 | Change | Market share |
|---|---|---|---|
| Digital | 1,227 | 5% | 19% |
| Business services | 732 | -18% | 12% |
| Transportation manufacturers and suppliers | 535 | 1% | 8% |
| Machinery and equipment | 456 | 39% | 7% |
| Finance | 421 | 23% | 7% |
| Agri-food business | 402 | 11% | 6% |
| Transportation and logistics | 382 | -4% | 6% |
| Chemicals and plastics | 356 | -12% | 6% |
| Electronics and IT | 302 | 18% | 5% |
| Utility suppliers | 181 | -15% | 3% |
| Metals | 175 | -15% | 3% |
| Pharmaceuticals | 153 | -60% | 2% |
| Raw materials | 153 | 28% | 2% |
| Textiles, clothing and leather | 142 | 31% | 2% |
| Research and scientific instruments | 137 | 427% | 2% |
| Other | 602 | -34% | 9% |
| Total | 6,356 | -4% | 100% |

Source: *EY European Investment Monitor (EIM) 2019*.

For the sixth consecutive year, Europe's digital sector attracted more FDI than any other industry, with the number of FDI projects increasing by 5% in 2018. In the last five years, the number of digital FDI projects has more than doubled.

FDI in Europe's digital sector is driven by US business, which was responsible for 37% of digital FDI projects in Europe last year.

FDI in the business services sector – historically Europe's second-largest industry for FDI – registered a significant 18% annual decline. The number of business services projects fell in all of the top three destination countries (Germany, France and the UK).

By contrast, FDI was strong in Europe's traditional industrial sectors. The combined number of FDI projects in the transport, machinery and chemicals industries increased 4% to 1,729 projects in 2018.

# 4 Russia

# Total number of FDI projects

Foreign investors put up capital in 211 new projects in Russia in 2018, thus helping it to get the 9th position among the most attractive European countries for investment. The number of FDI projects dropped 11% from 238 in 2017, reflecting a wider European trend to fewer projects connected with Brexit and slowdown of the European economy growth. Nevertheless, the total number of projects remains high compared with previous years since the launch of the survey in 2010.

While there has been more interest in growing existing business, with these projects now making up 20% of the total, compared with 15% in 2017, most foreign investors (80%) are still focused on the construction of new manufacturing facilities, rather than business expansion.

| Russia | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of FDI projects | 111 | 87 | 139 | 143 | 170 | 201 | 128 | 128 | 114 | 125 | 201 | 205 | 238 | 211 |

Among important factors driving Russia's attractiveness to foreign investors in 2018 were low inflation and the robust economic growth, which accelerated to 2.3%. With annual price growth stabilizing at around 4%, investors can now make long-term plans for the future.

# Countries

The list of the top ten countries investing in Russia has changed markedly since the previous year. Despite a difficult period in Russian-American relations, the US has topped the ranking for the first time since 2013, boosting the number of its projects by nearly 74%, from 19 in 2017 to 33 in 2018. The 2018 figure was also much higher than that observed in 2010, the year the survey was launched (25 projects).

While Germany ranked second, its investments in Russia declined by 14% to 24 projects from 28 projects in 2017.

China followed suit, reducing the number of its new projects to 19 versus 32 the year earlier, thus dropping from first to third position in the ranking.

France, by contrast, was more active and moved from seventh to fourth place in 2018, having increased the number of its investment projects by 18%, from 11 to 13. With the number of its projects rising 33% over the previous year, from 6 to 8, the Netherlands returned to the list of Russia's top ten investors, leaving behind the UK, which only funded two projects in 2018 versus 8 in 2017.

| | Country | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | US | 25 | 24 | 30 | 24 | 14 | 29 | 38 | 19 | 33 |
| 2 | Germany | 29 | 18 | 29 | 13 | 14 | 37 | 42 | 28 | 24 |
| 3 | China | 3 | 4 | 0 | 4 | 8 | 12 | 9 | 32 | 19 |
| 4 | France | 18 | 11 | 18 | 9 | 14 | 20 | 20 | 11 | 13 |
| 5 | Japan | 11 | 6 | 9 | 14 | 10 | 11 | 12 | 17 | 13 |
| 6 | Italy | 8 | 7 | 6 | 2 | 6 | 13 | 7 | 17 | 11 |
| 7 | South Korea | 5 | 0 | 1 | 1 | 3 | 3 | 2 | 12 | 10 |
| 8 | Switzerland | 12 | 4 | 3 | 4 | 8 | 8 | 7 | 11 | 9 |
| 9 | Finland | 12 | 7 | 5 | 5 | 6 | 9 | 7 | 7 | 8 |
| 10 | Netherlands | 3 | 7 | 4 | 1 | 1 | 3 | 5 | 6 | 8 |

## Activities

Manufacturing remains attractive for FDI, despite a 29% drop in the number of new projects – from 178 in 2017 to 127 in 2018. The FDI landscape in other areas has changed markedly. For example, sales and marketing projects have almost doubled from 21 in 2017 to 41 in 2018. The number of research and development (R&D) projects has also been on the rise, up 100% from 6 to 12.

New entrants to the ranking last year were testing and servicing, and Internet data centers. While in 2017 no FDI projects were reported in these areas, they attracted 10 and four projects, respectively, in 2018.

| | Activity | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Manufacturing | 110 | 62 | 60 | 55 | 69 | 153 | 136 | 178 | 127 |
| 2 | Sales and marketing | 67 | 51 | 49 | 40 | 34 | 20 | 32 | 21 | 41 |
| 3 | Logistics | 9 | 5 | 6 | 9 | 13 | 10 | 15 | 23 | 17 |
| 4 | R&D | 5 | 3 | 4 | 4 | 4 | 10 | 10 | 6 | 12 |
| 5 | Testing and servicing | 4 | 4 | 6 | 1 | 2 | 3 | 6 | 0 | 10 |
| 6 | Internet data centers | 1 | 1 | 1 | 0 | 0 | 3 | 1 | 1 | 4 |

## Sectors

With 32 projects in 2018, the agricultural sector became the most attractive one to foreign investors. As in 2017, machinery and equipment ranked second, having gained 29 new projects in 2018, up 38% from 21 projects the year earlier. The number of projects in the digital technologies sector has tripled from eight in 2017 to 24 in 2018. Chemicals and plastic showed an 11% rise over the previous year – from 19 to 21 projects – to place third in the ranking.

The pharmaceuticals industry tumbled from first to ninth position in the top-ten ranking, with the number of FDI projects there dropping by 77% – from 35 in 2017 to only 8 in 2018.

The last place in the ranking was shared by the finance, electronics and IT, and oil and gas sectors. Investments in electronics and IT have doubled over the previous year, with the number of projects in each of these sectors rising to six in 2018 versus three in 2017. The oil and gas sector saw a reverse trend in 2018 as the number of projects there decreased by 63% from 16 to six.

The year 2018 saw fewer capital-intensive projects in the oil and gas and metals sectors against a growing number of projects in digital technologies, electronics and IT, which, though not capital-intensive, require substantial investments in R&D.

| | Sector | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| 1 | Agri-food business | 38 | 41 | 38 | 32 |
| 2 | Machinery and equipment | 28 | 27 | 21 | 29 |
| 3 | Digital | 7 | 1 | 8 | 24 |
| 4 | Chemicals and plastic | 27 | 33 | 19 | 21 |
| 5 | Transportation manufacturers and suppliers | 25 | 19 | 17 | 19 |
| 6 | Mineral reserves | 12 | 8 | 12 | 13 |
| 7 | Utilities | 0 | 1 | 10 | 11 |
| 8 | Metals | 5 | 10 | 13 | 10 |
| 9 | Pharmaceuticals | 6 | 10 | 35 | 8 |
| 10 | Electronics and IT | 1 | 2 | 3 | 6 |
| 11 | Finance | 2 | 0 | 3 | 6 |
| 12 | Oil and gas | 15 | 14 | 16 | 6 |

# Regions

Moscow and the Moscow Region with 61 new FDI projects, as well as St. Petersburg and the Leningrad Region with 25 new FDI projects, remained the most attractive ones to investors, ranking first and second, respectively.

The US financed 11 projects in the Moscow region, thus proving to be the leading investor there. With eight FDI projects, machinery and equipment was the most popular sector in Moscow and the Moscow Region, followed by the agri-food business, mineral reserves and digital, each gaining seven new projects. Japan and the US shared the top spot among investors in St. Petersburg and the Leningrad Region, with four new FDI projects each. The largest number of FDI projects in this region was observed in the machinery and equipment sector.

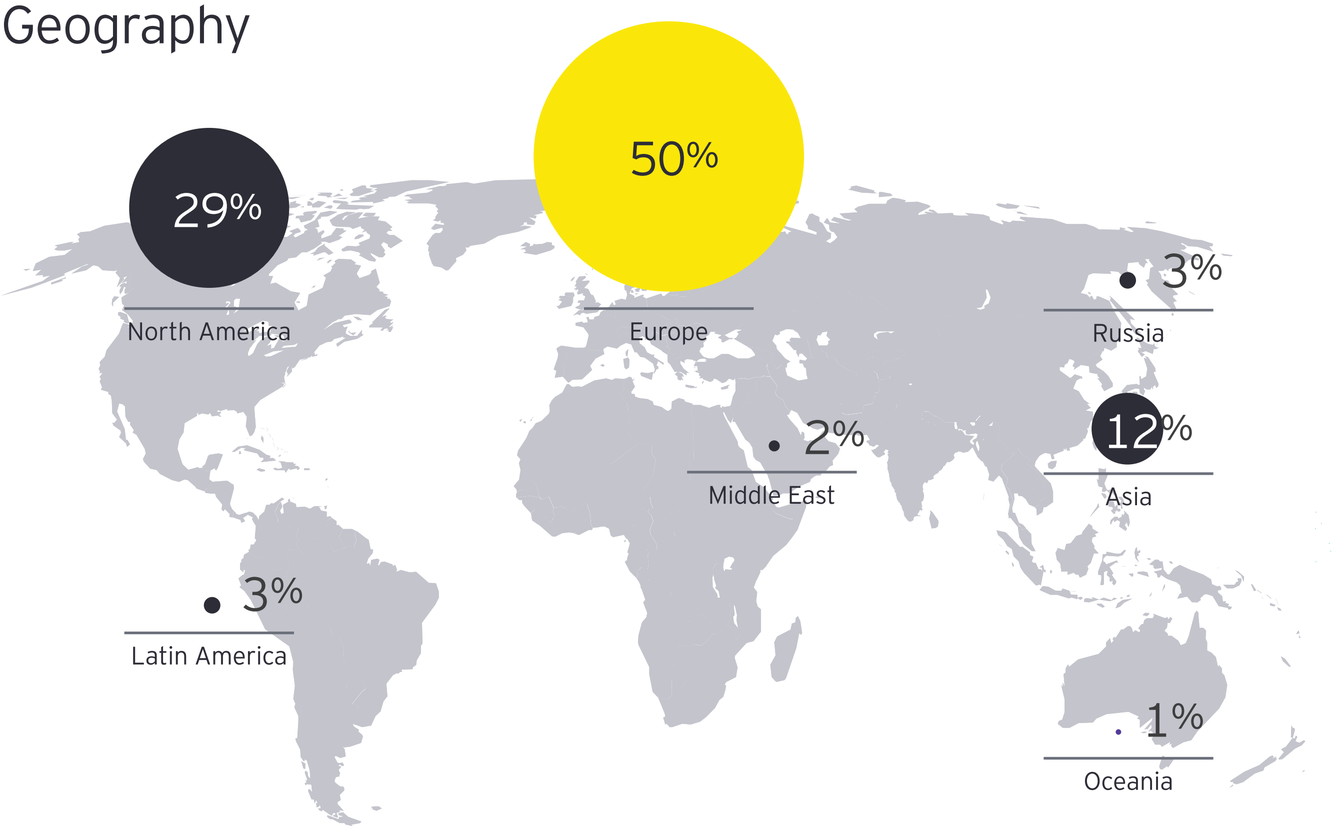
The Primorye Region continues to gain in popularity among foreign investors. With 14 FDI projects, it ranked the third most popular investment destination. The agri-food business drew the largest number of investments, accounting for 29% of total investments in the region (4 projects). Among factors driving the rising number of FDI projects in the local agri-food business is the region's proximity to China's large market with its demand for high-quality Russian produce.

Increased interest in this region, including the Primorye Region, on the part of foreign investors attests to the remarkable headway made by the federal government in Russia's developing Far East. A "one-stop shop" service for investors, coupled with preferences for the residents of advanced development zones and the free port of Vladivostok, contributes significantly to the attractiveness of new investment projects.

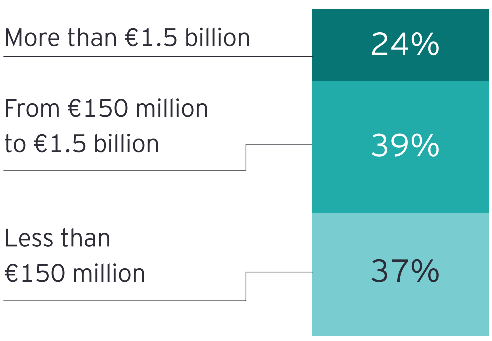
| | Region | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| 1 | Moscow and Moscow Region | 45 | 49 | 54 | 61 |
| 2 | St. Petersburg and Leningrad Region | 22 | 15 | 17 | 25 |
| 3 | Primorye Region | 0 | 7 | 12 | 14 |
| 4 | Republic of Tatarstan | 15 | 7 | 14 | 13 |
| 5 | Ulyanovsk Region | 9 | 8 | 5 | 12 |
| 6 | Krasnodar Region | 6 | 4 | 3 | 8 |
| 7 | Kaluga Region | 8 | 15 | 7 | 6 |
| 8 | Novosibirsk Region | 4 | 4 | 5 | 4 |
| 9 | Belgorod Region | 1 | 2 | 5 | 3 |
| 10 | Kaliningrad Region | 1 | 2 | 4 | 3 |

# Methodology

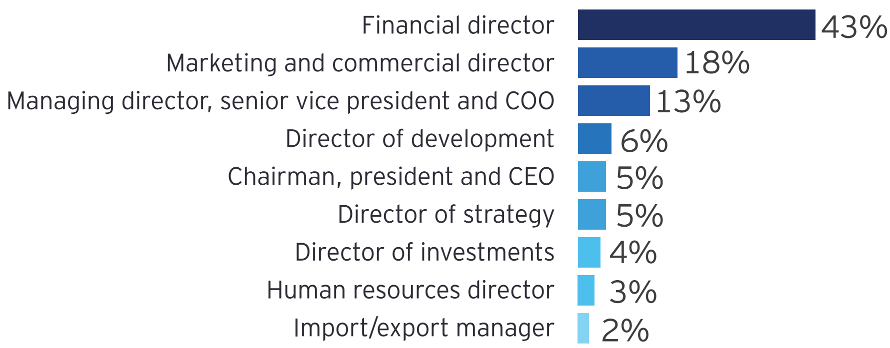
## Geography




## Size




## Job title




## Sector activity


Source: *EY Attractiveness Survey 2019 – Europe*.

## The "real" attractiveness of Europe for foreign investors

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

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

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

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

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

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments.

The following categories of investment projects are excluded from the EY EIM:

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

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

## The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2019 via telephone interviews, based on a representative panel of 506 international decision-makers.

This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

- Western Europe: 40%
- North America: 29%
- Asia: 12%
- Northern Europe: 8%
- Latin America: 3%
- Russia: 3%
- CEE: 2%
- Middle East: 2%
- Oceania: 1%

Overall, 81% of the 506 companies interviewed have a presence in Europe. And of the non-European companies, 35% have established operations in Europe.

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EY works together with companies across the CIS and assists them in realizing their business goals. 5,500 professionals work at 19 CIS offices (in Moscow, Ekaterinburg, Kazan, Krasnodar, Novosibirsk, Rostov-on-Don, St. Petersburg, Togliatti, Vladivostok, Almaty, Atyrau, Nur-Sultan, Baku, Bishkek, Kyiv, Minsk, Tashkent, Tbilisi, Yerevan).

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