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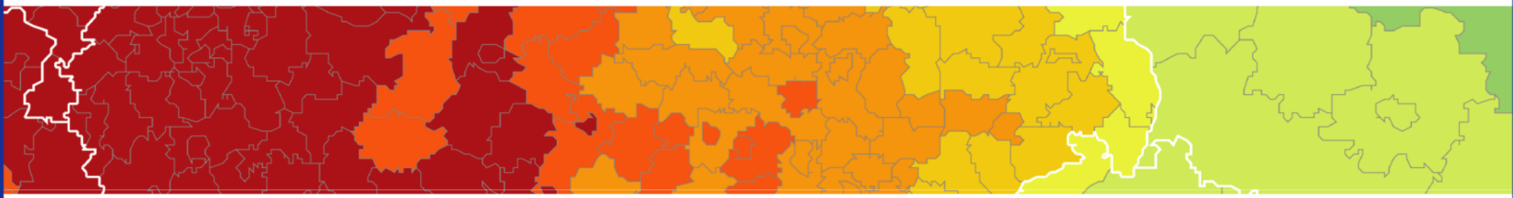

The world in Europe, global FDI flows towards Europe

Trends and patterns in extra-European FDI inflows towards Europe

Applied Research

Scientific Report

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Trends and patterns in extra-European FDI inflows towards Europe

Scope and introduction to the study

This report is part of the study, *The World in Europe, global FDI flows towards Europe*. The study casts new light on three topics related to the integration of Europe in the world economy:

1. Extra-European FDI towards Europe
2. Intra-European FDI
3. FDI by European SMEs

Key conclusions and recommendations related to each of these questions can be found in three stand-alone reports. Each report is supported by a number of scientific reports that contain detailed methodological descriptions and results. The insights gained from the study are summarised in a synthesis report that cuts across the three topics.

This scientific report *Trends and patterns in extra-European FDI towards Europe* includes background information and documentation for the conclusions and recommendations brought forward in the main report on extra-European FDI towards Europe.

Overview of the study

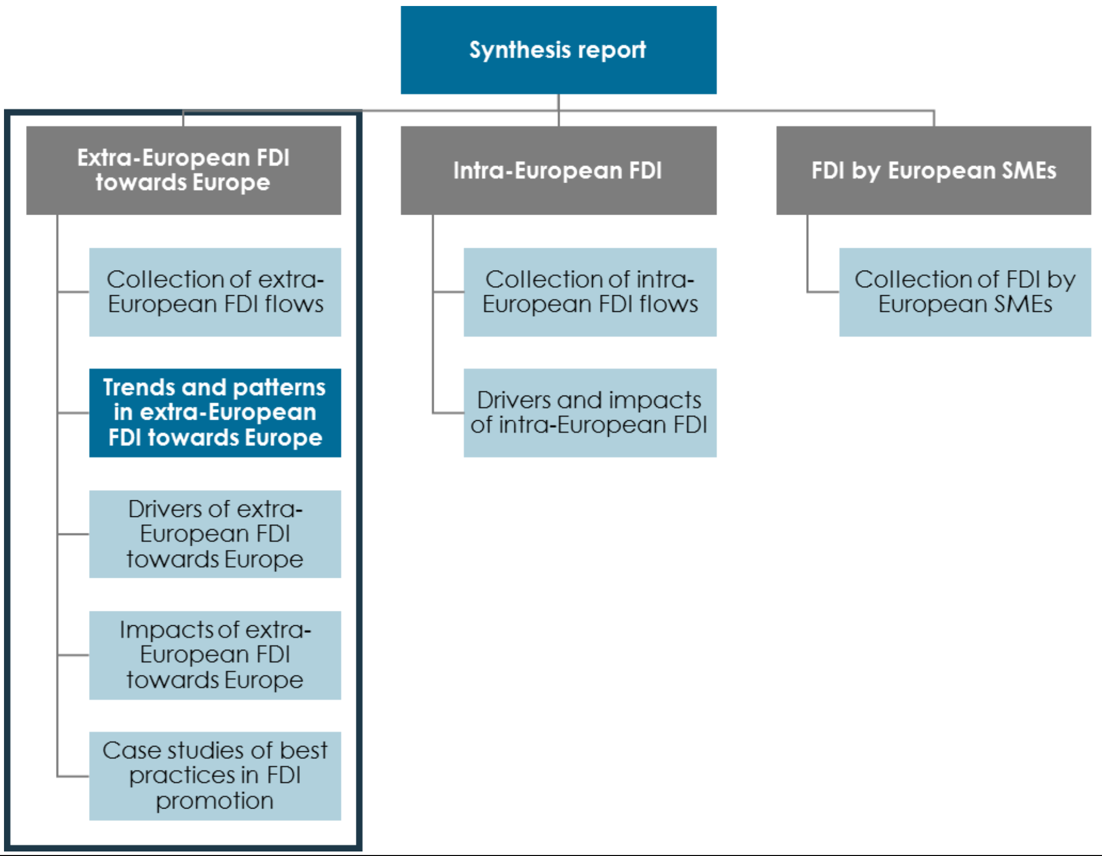


Table of contents

List of Figures

List of Maps

List of Tables

List of Boxes

Abbreviations

BvD	Bureau van Dijk
EC	European Commission
ESPON	European Territorial Observatory Network
EU	European Union
FDI	Foreign Direct Investment
FT database	fDi Markets database offered by the Financial Times
M&As	Mergers and acquisitions
NUTS	Nomenclature of Territorial Units for Statistics
EFTA	European Free Trade Association

AT	Austria
BE	Belgium
BG	Bulgaria
CH	Switzerland
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IS	Iceland
IT	Italy
IE	Ireland
LT	Lithuania
LU	Luxembourg
LV	Latvia
MK	The former Yugoslav Republic of Macedonia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
RS	Serbia
SE	Sweden
SI	Slovenia
SK	Slovakia
TR	Turkey
UK	United Kingdom

Executive summary

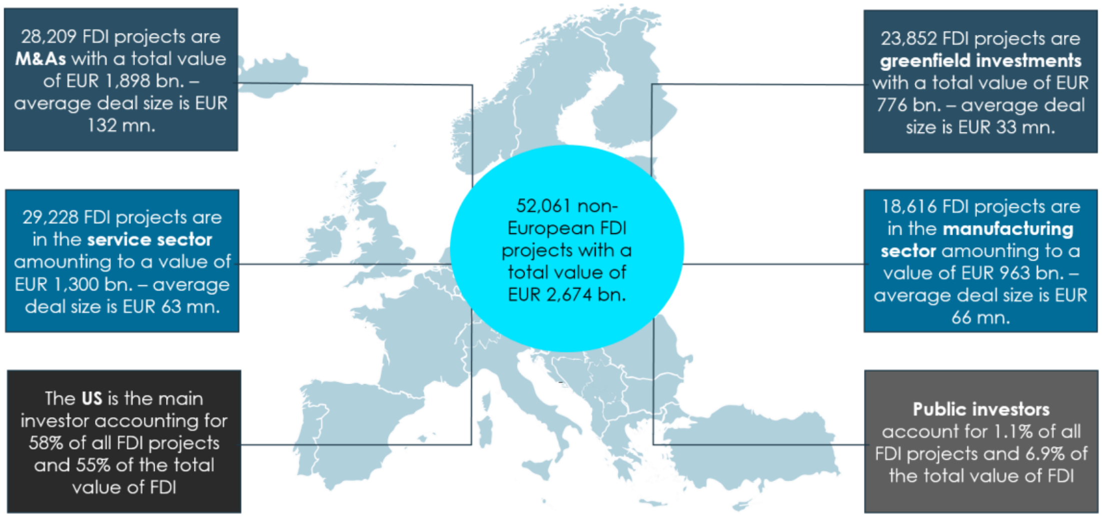
The findings in this report are based on a unique and very detailed database on FDI for NUTS3 regions in Europe, which has been built as a part of this project. Building the database has required combining several databases and carrying out thorough cleaning and quality assurance procedures.[1] In this scientific report, we use the data to analyse trends and patterns in extra-European FDI inflows towards Europe.

Trends and patterns in FDI inflows across countries in Europe

During 2003-2015, non-European investors carried out more than 52,000 FDI projects in Europe amounting to a total value of more than EUR 2,600 bn., cf. Figure 1. More than 28,000 projects worth almost EUR 1,900 bn. (71 per cent of the total deal value) were M&As with an average deal value of EUR 132 mn. Greenfield investments amounted to EUR 776 bn., and the average deal value was EUR 33 mn.

The majority of the FDI projects were in the service sector (56 per cent) but the average deal value of EUR 63 mn. was smaller than the average deal value of EUR 66 mn. for FDI projects in the manufacturing sector. The US is by far the largest non-European investor and account for 55 per cent of the total value of extra-European FDI during this period. Investments by public investors accounted for 6.9 per cent of the total deal value.

Figure 1 Overview of FDI inflows towards Europe, 2003-2015



Note: Public investors include, among others, state-owned enterprises from non-European countries.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases. See the scientific report *Collection of extra-European FDI flows* for further details

[1] The methodology used to collect the data has been described in more details in the scientific report *Collection of extra-European FDI flows*.

The UK, Germany, the Netherlands and Germany are the main destinations for extra-European FDI. The UK alone attracted 30 per cent of the total value of extra-European FDI towards Europe (of which 49 per cent origin from the US). At the same time, the UK accounts for 16 per cent of the combined EU GDP, and Brexit may reduce the Single Market as an attraction factor for non-European investors. The extent to which Brexit will influence the location of future FDI inflows towards Europe and cause reallocations of existing investments between the UK and the EU remains to be seen. Luxembourg and Cyprus also receive large FDI inflows – mainly due to their light tax regime.

In general, there is a clear tendency for FDI to flow to large countries. The five largest countries in terms of GDP (i.e. Germany, the UK, France, Italy and Spain) thus accounted for almost 60 per cent of total FDI inflows into Europe over the period 2003-2015.

Table 1 shows that the mature economies in EU15 (the so-called old Member States) accounted for around 82 per cent of total extra-European FDI towards Europe during 2003-205, irrespective of whether FDI is measured both in value or in number of projects. The EU15 accounted for 77.6 per cent of the European GDP, which suggests that these countries receive a larger share of extra-European FDI than their economic size would have predicted. The opposite is the case for the remaining European countries. While the economic size of a country is an important driver of FDI, it is far from the only one.

The EU13 accounted for 7.6 per cent of the value of FDI but 11 per cent of the number of FDI projects. This indicates that a FDI project on average has a lower value in these countries than in EU15. The opposite is the case in the candidate countries. These countries received 1.8 per cent of the total number of FDI projects in Europe during 2003-2015 but 3 per cent of the FDI inflows during the same period. A similar pattern can be observed in the non-EU countries.

Table 1 GDP and FDI inflows across country groups

	Share of European GDP 2003-2015	Share of FDI inflows from non-European countries 2003-2015 by value	Share of FDI inflows from non-European countries 2003-2015 by number of projects
EU15 (old Member States)	77.6 %	81.5 %	82.5 %
EU13 (new Member States)	11.5 %	7.6 %	11.0 %
Candidate countries	7.1 %	3.0 %	1.8 %
Non-EU (EFTA) countries	3.8 %	7.9 %	4.4 %

Note: EU15 comprises the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK. EU13 includes Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. The candidate countries are Albania, the former Yugoslav Republic of Macedonia (fYRoM), Montenegro, Serbia and Turkey. The non-EU countries include Iceland, Liechtenstein, Norway and Switzerland.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

Taking the economic size of the economies into account, the Netherlands and Ireland are some of the most successful countries in terms of attracting FDI. During 2003-2015, the Netherlands accounted for 4.4 per cent of the combined European GDP but 9.9 per cent of the total value of FDI inflows towards Europe, whereas Ireland accounted for 1.3 per cent of the combined

GDP and 2.6 per cent of FDI inflows into Europe. Both countries have a very attractive investment climate in Europe measured in terms of cost and quality drivers of FDI.[2]

There has not been any significant change in extra-European FDI flows between the period before the crisis (2003-2009) and the following period (2010-2015) when looking at the European scale. The value of flows remains stable with only a limited decrease, resulting in having 49.7 per cent of the flows of the period between 2010 and 2015. However, differences can be seen at the national level, e.g. in the Balkan, in the Nordic as well as Turkey received more extra-European FDI inflows after than before the crisis.

Trends and patterns in FDI inflows across regions in Europe

Of the 52,061 FDI projects by non-European investors recorded during 2003-2015, 44,373 projects can be mapped at the NUTS3 level. For the rest of the projects, we only have information about the country. The database on regional FDI allows us to analyse the distribution of FDI across territorial groups of regions using two different measures of FDI inflows. The share of FDI inflows by value measures a region's ability to attract many and large FDI projects, and the share of FDI inflows by number measures a region's ability to attract a large number of FDI. The database also includes information about the type and sector composition of the extra-European FDI projects in Europe.

The NUTS3 regions with the largest *values of FDI inflows* during 2003-2015 are Greater Amsterdam (103,791 mn. EUR), Camden & City of London (74,077 mn.), Madrid (54,348 mn.), Hauts-de-Seine (51,983 mn.), Luxembourg (51,647 mn) and Paris (51,644 mn.). The NUTS3 regions with the largest *number of FDI projects* are Camden & City of London (1,698 projects), Paris (1,505 projects), Westminster (1,405 projects) and Greater Amsterdam (1,249 projects).

Irrespective of how FDI is measured, FDI is highly concentrated in the more advanced regions, and these countries account for a disproportionately high share of FDI inflows towards Europe, cf. Table 2. Urban regions, for example, account for 54.6 per cent of the combined European GDP but for 71.8 per cent of the value of FDI inflows towards Europe and 72.4 per cent of the number of FDI projects. The same is the case for capital city metropolitan regions and more developed regions, whereas all other types of regions receive less FDI than their economic size would have predicted.

[2] Cost and quality drivers include FDI drivers such as clusters and agglomeration, infrastructure and accessibility, as well as costs, productivity and resource availability. The FDI Attractiveness Scoreboard developed by Copenhagen Economics on behalf of DG Grow ranks 44 countries on 18 cost and quality indicators. Ireland comes out as the fourth most attractive country, and the Netherlands comes out as the fifth most attractive country.

Table 2 Distribution of FDI across territorial groups of regions

	Share of European GDP 2003-2014	Share of FDI inflows from non-European countries 2003-2015 by value	Share of FDI inflows from non-European countries 2003-2015 by number of projects
Urban regions	54.6 per cent	71.8 per cent	72.4 per cent
Intermediate regions	32.7 per cent	22.8 per cent	21.2 per cent
Rural regions	12.6 per cent	5.3 per cent	6.4 per cent
Capital city metropolitan regions	22.6 per cent	42.0 per cent	42.4 per cent
Other metropolitan regions	44.2 per cent	34.2 per cent	36.2 per cent
Non-metropolitan regions	33.2 per cent	23.8 per cent	21.4 per cent
More developed regions	73.1 per cent	83.6 per cent	81.8 per cent
Transition regions	14.5 per cent	8.8 per cent	10.0 per cent
Less developed regions	12.4 per cent	7.6 per cent	8.2 per cent
Regions next to capital city regions	8.6 per cent	7.7 per cent	8.3 per cent
Regions along national land borders	18.0 per cent	16.3 per cent	14.7 per cent

Note: The figures do not include regions in Albania, Bosnia & Herzegovina, Serbia and Turkey. The figures on share of European GDP do not include Iceland, Liechtenstein and Switzerland.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

Different territorial groups of regions not only attract different volumes of FDI projects with different values. They also attract different *types of FDI*.

Greenfield investments take place when a new foreign firm establishes itself in the region and sets up new production facilities, e.g. to access new markets or reduce its costs of production. This type of FDI stimulates economic activity in the region during the construction phase and expands the capital stock in the region.

M&As take place when a foreign firm acquires more than 10 per cent of the voting stock in an existing domestic firm, e.g. to secure access to critical resources or for strategic reasons. M&As may help sustain existing economic activity in the region, but this type of FDI does not expand the capital stock in the region. Over time, the change of ownership may improve the competitiveness of the firm and stimulate growth.

M&As accounted for more than 70 per cent of the total value of FDI inflows towards Europe during 2003-2015, and the pattern of M&As across regions thus to a large extent resemble the pattern of total FDI. M&As mainly take place in urban (75.2 per cent), capital city metropolitan regions (46.1 per cent) and more developed regions (83.6 per cent), cf. Table 3.

Greenfield investments account for the remaining 30 per cent. As this type of FDI expands the capital stock, it is more likely that greenfield investments create new jobs. Greenfield investments are more evenly spread out across different territorial groups of regions, and one explanation for this could be that land and labour costs are lower in the less advantaged regions. Other metropolitan regions (40.1 per cent) and non-metropolitan regions (31 per cent), for example, attracted larger shares of greenfield investments than capital city metropolitan regions (28.9 per cent). In addition, less developed regions attracted only 7.6 per cent of total

FDI inflows towards Europe but 19.7 per cent of greenfield investments. Greenfield investments thus seem to support convergence across regions.

Table 3 Types and sectoral composition of FDI in territorial groups of regions, 2003-2015

Share of:	Total FDI	Type of FDI		Sector	
		M&As	GF	Services	Manuf.
Urban regions	71.8 per cent	75.2 per cent	60.7 per cent	81 per cent	68 per cent
Intermediate regions	22.8 per cent	21.5 per cent	27.3 per cent	16 per cent	26 per cent
Rural regions	5.3 per cent	3.3 per cent	5.1 per cent	2 per cent	6 per cent
Capital city metropolitan regions	42.0 per cent	46.1 per cent	28.9 per cent	53 per cent	32 per cent
Other metropolitan regions	34.2 per cent	32.4 per cent	40.1 per cent	36 per cent	39 per cent
Non-metropolitan regions	23.8 per cent	21.5 per cent	31.0 per cent	11 per cent	29 per cent
More developed regions	83.6 per cent	89.2 per cent	65.9 per cent	91 per cent	87 per cent
Transition regions	8.8 per cent	7.2 per cent	14.4 per cent	4 per cent	7 per cent
Less developed regions	7.6 per cent	3.8 per cent	19.7 per cent	4 per cent	6 per cent
Regions next to capital city regions	7.7 per cent	5.6 per cent	14.8 per cent	5 per cent	3 per cent
Regions along national land borders	16.3 per cent	14.8 per cent	21.3 per cent	13 per cent	18 per cent

Note: The figures do not include regions in Albania, Bosnia & Herzegovina, Serbia and Turkey. GF means greenfield investments.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

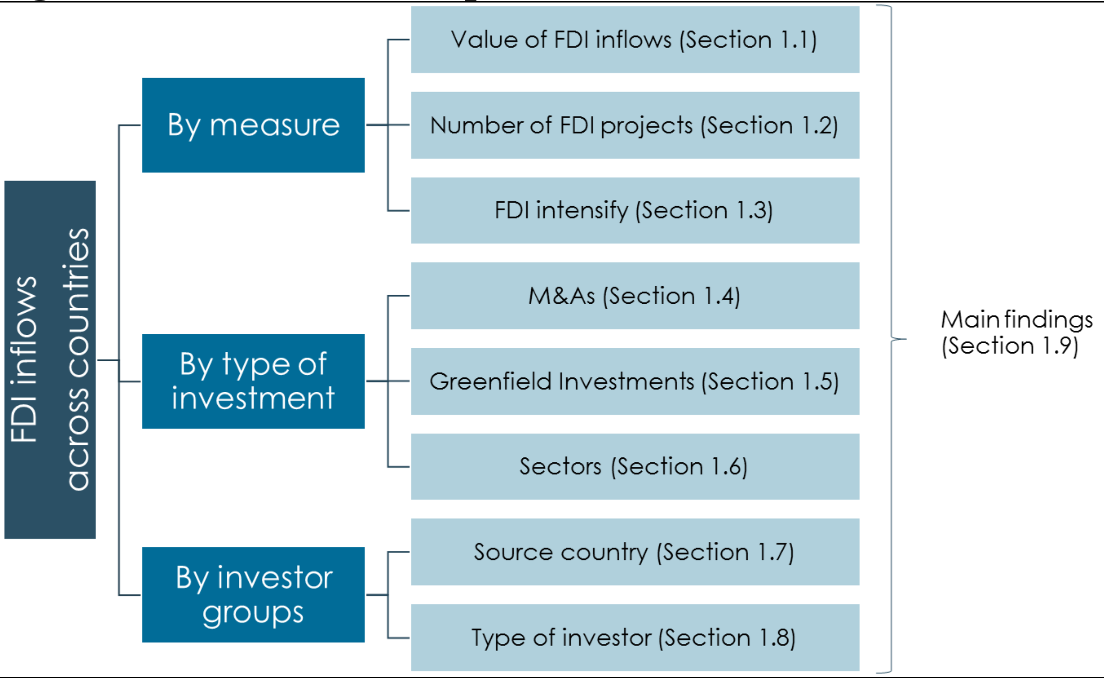
The *composition of FDI* also differs across territorial groups of regions. FDI in the service sectors is more concentrated in the urban regions (81 per cent), capital city metropolitan regions (53 per cent) and more developed regions (5 per cent). This is so because services are generally less tradable across borders, and FDI in the service sectors is in many cases driven by a market seeking motive oriented towards the local market. FDI in the manufacturing sectors is more evenly spread out across regions. Rural and non-metropolitan regions, for example, get a disproportionately high share of FDI in the manufacturing sector. Non-metropolitan regions receive 23.8 per cent of total FDI inflows towards Europe but 29 per cent of FDI in the manufacturing sector.

Regions next to capital city regions and border regions have in common the fact of attracting more M&As than greenfield investments. The former has 54 per cent of its extra-European FDI inflows from M&As and the latter has 69 per cent during 2003-2015.

1 The impact of FDI inflows on territorial development

In this activity, we analyse trends in extra-European FDI inflows across the European countries, defined as the EU Member States, candidate countries, EFTA countries (2017 status) as well as Bosnia & Herzegovina for the period 2003-2015. We exploit the various dimensions in the data and analyse trends in inward FDI inflows before and after the crisis as it can be seen from Figure 2. The selected dimensions cover central indicators for analysing FDI flows with data enabling accurate analyses of the status and the trends. We thus describe FDI inflows towards Europe by measure (value of FDI inflows, number of FDI projects and FDI intensity), by type of investment (M&As, greenfield investments and across sectors) and by investor groups (source country and type of investor).

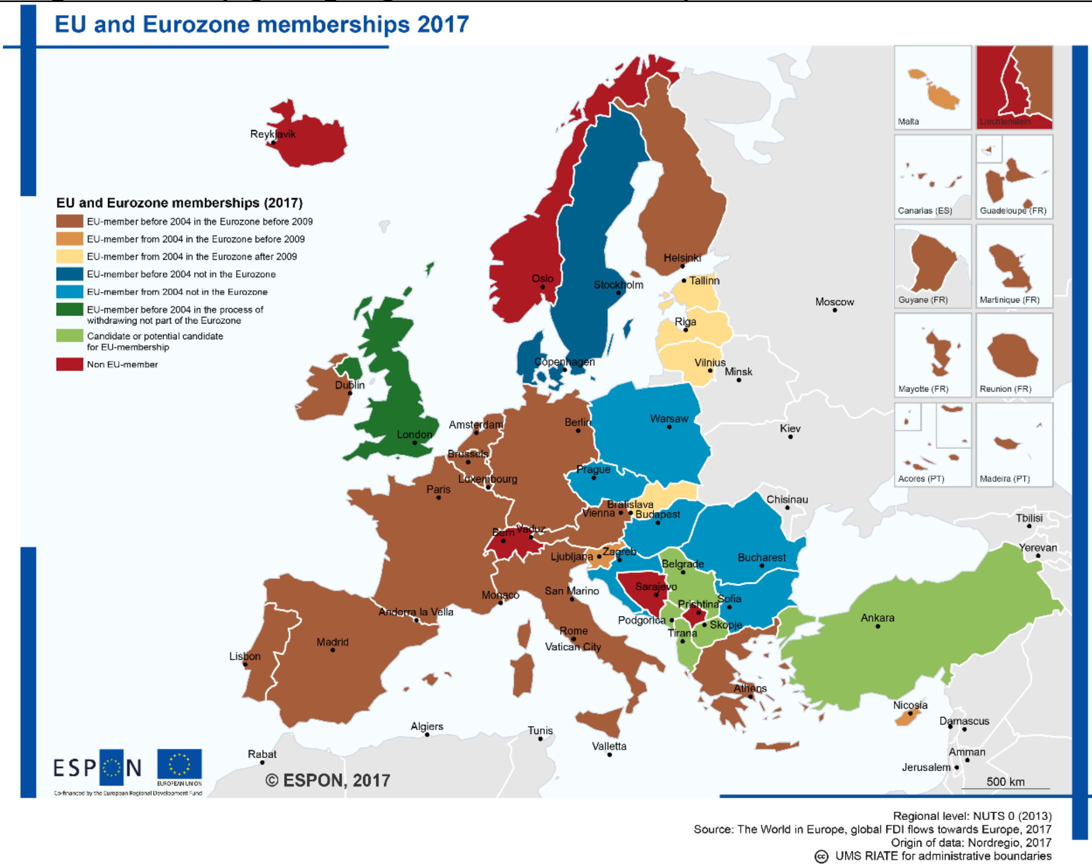
Figure 2 Overview of the chapter



Source: ESPON FDI (2018) based on the terms of reference for the study

In some cases, we group the European countries to analyse how different groups of countries perform in terms of attracting extra-European FDI inflows (Map 1). Eight groups of countries can be distinguished, based on each country membership status to both the EU (2017 status) and the Eurozone (before and after 2009). Six categories correspond to EU Member States joining the EU at different points in time and being part or not of the Eurozone. The last two categories are for candidate or potential candidate country and non-EU Member States.

Map 1 Country groupings used in the study



Source: ESPON FDI (2018) based on the official website of the EU

Each section in this chapter includes graphic elements, mostly maps sometimes accompanied by a graph, and a corresponding map description. Most of these descriptions are structured in four main paragraphs:

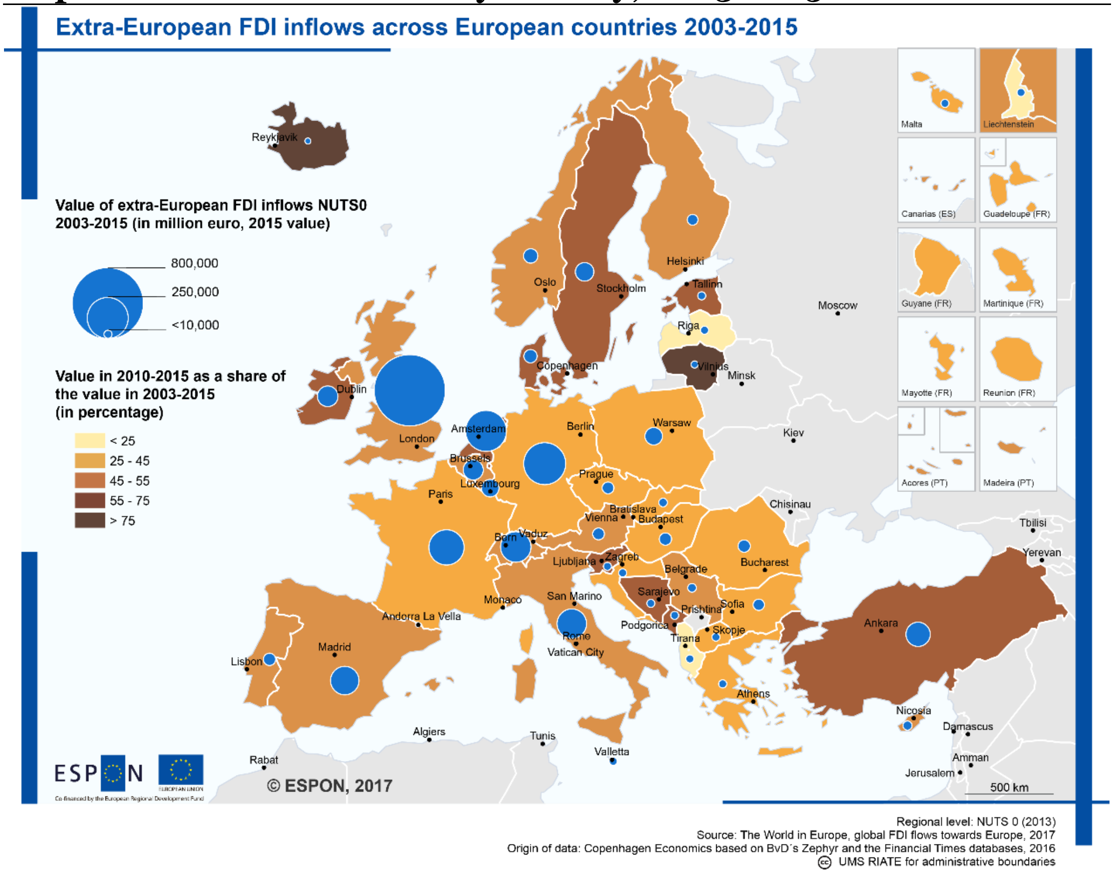
- Background elements: Give insight on both the indicators and the data used to produce the map.
- Overall description: About the distribution of extra-European FDI inflows across groups of countries and trends before and after the crisis.
- Focus on individual countries: Countries having the largest and lowest share of the distribution of extra-European FDI inflows.
- Focus on individual countries with share of extra-European FDI inflows larger than their share of GDP: About the distribution of FDI across European countries relative to the distribution of GDP across these countries. Countries that attract a larger share of FDI inflows than their share of European GDP would have predicted thus perform well.

1.1 Value of FDI inflows across European countries

Background elements:

The map in Map 2 has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for each country included in the dataset and covering the period 2003-2015. The indicator deal value corresponds to the actual value of the investment. It is expressed in EUR mn. in this chapter as it is commonly expressed. Note that the deal value is not always informed in the FDI databases (see details in the scientific report for Task 1).

Map 2 Value of FDI inflows by country, 2003-2015



Note: The figure covers both greenfield investment and M&As. The dataset for M&A does not have a deal value for each of the project listed.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The value of the total FDI inflows from non-European investors amounted to more than EUR 2,600,000 mn. (2015 value) over the period 2003-2015. The deal value for the period after the crisis (2010-2015) accounts for 49.7 per cent of the total deal value for the entire period 2003-2015, which indicates that the amount of deal value has slightly decreased after the crisis.

A large majority of these inflows went towards EU Member States (88 per cent of the total, of which 92 per cent to old EU Member States) and exactly half of the total inflows towards the Eurozone (50 per cent) in 2003-2015. These three figures remain relatively stable between the period before the crisis (2003-2009) and the period after the crisis (2010-2015). For instance, the extra-European FDI inflows to EU Member States in 2010-2015 (ca. 1,163,096 mn. EUR, 2015 value) correspond to 49.2 per cent of the total inflows of the entire period 2003-2015 towards EU Member States.

Individual countries:

The maps on extra-European FDI inflows across European countries 2003-2015 highlight the success of the UK in attracting a large share of extra-European FDI inflows during that period. The UK attracted 30 per cent of the total deal value, corresponding to ca. EUR 800,000 mn. (2015 value). The attraction of the UK remains relatively stable over time, with even a small increase between the periods 2003-2009 and 2010-2015: 53.4 per cent of the inflows occurred during the sub-period 2010-2015. This performance reflects some strong natural advantages of the UK. The UK thus received an important amount of FDI from the US (Figure 18), where both countries enjoy a number of similarities (e.g. language, global position and business culture). The great performance of the UK is also due to the strong attraction of FDI towards the metropolitan area of London.

Box 1 The FDI attractiveness of the UK

The UK has the natural advantage of having a large domestic market, cultural diversity and being an English speaking country and is a culturally diverse society with historical ties across the globe. In addition, London is seen as the most attractive European city and is an attraction factor in itself. Besides these strong fundamental FDI drivers, the UK has also established a very attractive investment climate. In particular, the Government has pursued a strategy of building a strong knowledge and innovation capacity, which has been a driver for FDI into the food, pharmaceutical and ICT sectors. The UK has also taken recent steps to become more cost-competitive by lowering the corporate tax rate.

Source: ESPON FDI (2018) based on Copenhagen Economics (2016), *Towards a FDI Attractiveness Scoreboard*, p. 13

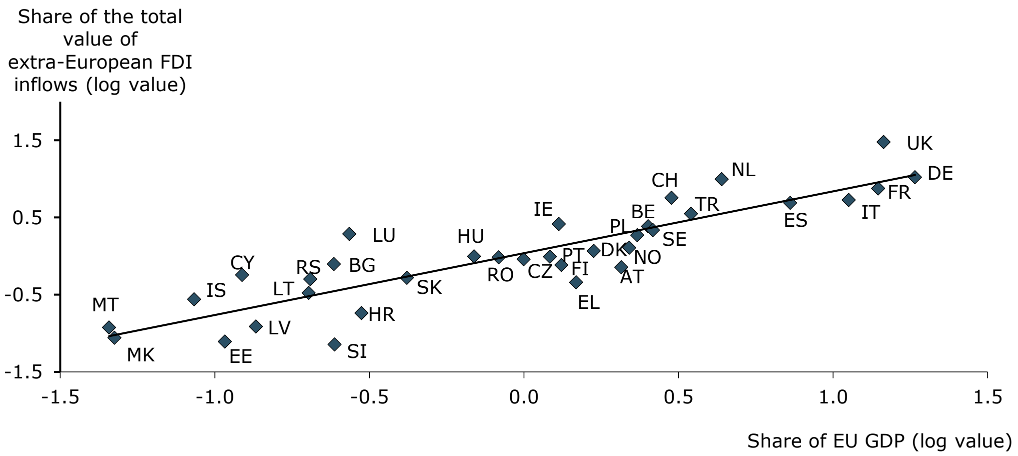
It is in North-West Europe that extra-European FDI flows in the most. Apart from the UK, four other countries attract more than EUR 150,000 mn. (2015 value): it is Germany, the Netherlands, France and Switzerland. On the contrary, the countries attracting the least extra-European FDI are mostly located in Eastern Europe, especially in the Balkan and the Baltic countries. Each of the following countries attracted less than EUR 5,000 mn. during the period 2003-2015: Croatia (EUR 4,900 mn.), Bosnia & Herzegovina, (4,800), Latvia (3,200), Malta (3,200), the former Yugoslav Republic of Macedonia (2,300), Estonia (2,100), Slovenia (1,900), Montenegro (1,300), Albania (EUR 700 thousands). Finally, the country that has attract the least amount of FDI is Liechtenstein with EUR 19 mn.

Relatively small countries in terms of population, economy and geographical sizes tend to have the most important changes over FDI inflows over time, i.e. inflows in 2010-2015 as a share of total inflows in 2003-2015. The countries with the most important increase in FDI inflows after the crisis are Iceland (81 per cent), Lithuania (78 per cent), Bosnia & Herzegovina (71 per cent) and Slovenia (66 per cent). On the other end of the list, i.e. the countries with the lowest shares after the crisis, can be found Liechtenstein (5.2 per cent), Albania (6.9 per cent), Latvia (17 per cent), Bulgaria (27 per cent), Greece (27 per cent) and Hungary (30 per cent). The largest European countries tend to have values ranging between 45 and 55 per cent, such as the UK (53 per cent) or Switzerland (52 per cent). Germany, however, has a value of 38 per cent, whereas Sweden and Denmark values are beyond 60 per cent.

<u>Individual countries with shares of FDI inflows larger than GDP:</u>

Figure 3 shows the relation between the share of EU GDP (log value) and the share of the total value of extra-European FDI inflows (log value). The line is a linear regression line based on the observations. Figure 3 highlights that 15 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries are old and new EU Member States, non-member States, candidate countries as well as both countries in and out of the Eurozone. The countries performing much better than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Luxembourg (LU), the UK (UK) and Cyprus (CY).

Figure 3 Shares of GDP and FDI inflows by country, 2003-2015



Note: Shares of the total value of extra-European FDI inflows: Deal values for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

Shares of EU GDP: annual average GDP value for each country during the period 2003-2015 as a share of the annual average European GDP for the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

On the other side of the line, 19 countries can be found, including several EU Member countries (e.g. Germany and Spain) as well as Norway (NO). The countries performing worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Slovenia (SI) and Greece (EL).

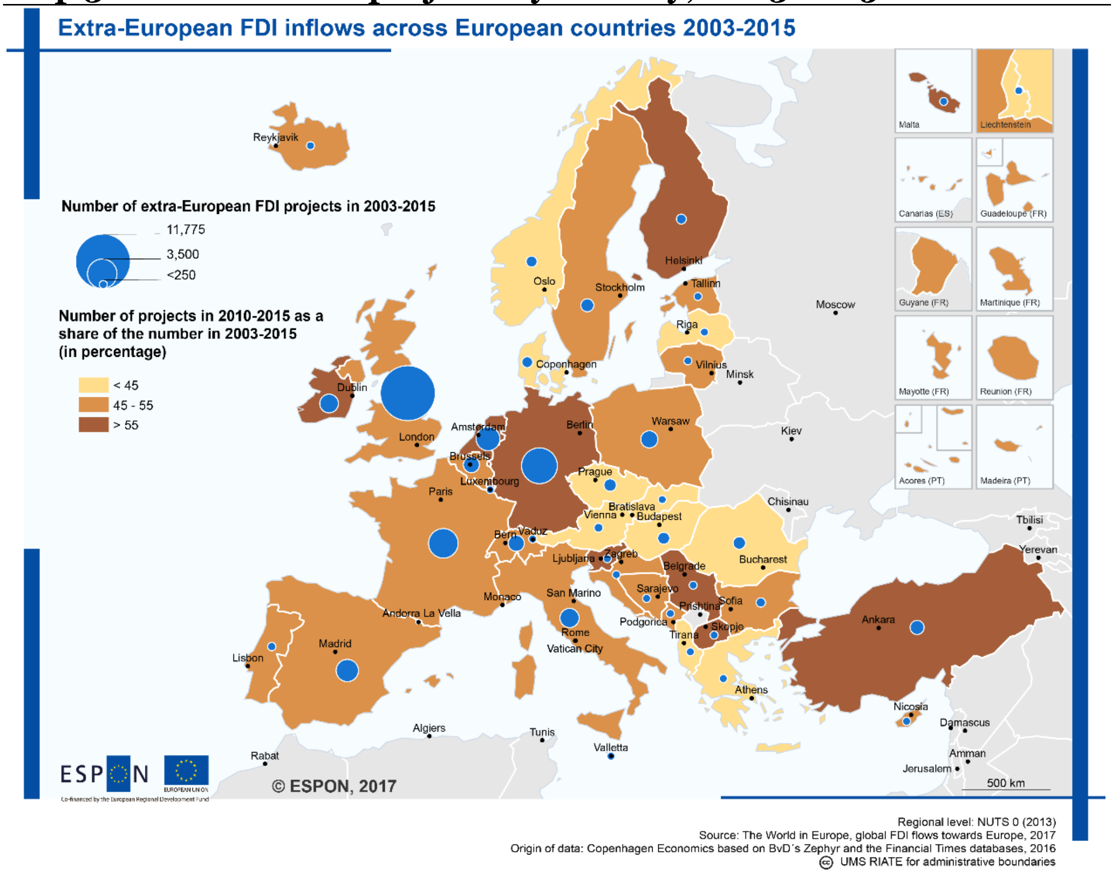
A number of countries are performing as expected. It is the case for instance for Romania (RO) located right on the line, Slovakia (SK) slightly under the line and Lithuania (LT) slightly above the line.

1.2 Number of FDI projects

Background elements:

The map in Map 3 has been produced using the indicator project count of all the extra-European FDI inflows (both M&As and greenfield investments) for each country included in the dataset and covering the period 2003-2015. The indicator project count corresponds to the actual number of projects (see details in the scientific report for Task 1).

Map 3 Number of FDI projects by country, 2003-2015



Note: The figure covers both greenfield investment and M&As.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

Of the more than 52,000 FDI projects undertaken by non-European investors during the period 2003-2015, around 38,200 projects have a deal value and can be matched with a NUTS 3 code. 52.3 per cent of these projects occurred after the crisis, i.e. during the period 2010-2015.

The EU Member States attracted 93 per cent of all extra-European FDI inflows projects to European countries (of which 81 per cent towards old EU Member States) and 50 per cent of all the projects took place within the Eurozone in 2003-2015 (Map 3). These figures remained relatively stable between before and after the crisis with a slight increase for both old EU Member States (83 per cent) and Eurozone-members (51 per cent).

Individual countries:

As for the value of extra-European FDI inflows, the countries with the highest number of projects are found in North-West Europe. The UK attracted 31 per cent of the 38,241 extra-European FDI inflows projects during 2003-2015 (Map 3). The UK is followed by Germany with 13 per cent of the projects (5,026 projects), France with 9 per cent (3,471) and the Netherlands with 6 per cent (2,231) in terms of amount of FDI flows. On the opposite, ten countries, mainly located in the Balkan and Baltic countries, attracted less than 100 extra-European FDI projects between 2003 and 2015: Estonia, Croatia, Slovenia, Malta, Bosnia & Herzegovina, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Albania and Liechtenstein.

Over time, changes indicate different trends: for instance countries such as Croatia, Cyprus and Iceland have higher share of projects after the crisis, whereas countries such as Greece, Albania and Latvia have lower share of projects after the crisis.

Individual countries with share FDI inflows larger than GDP:

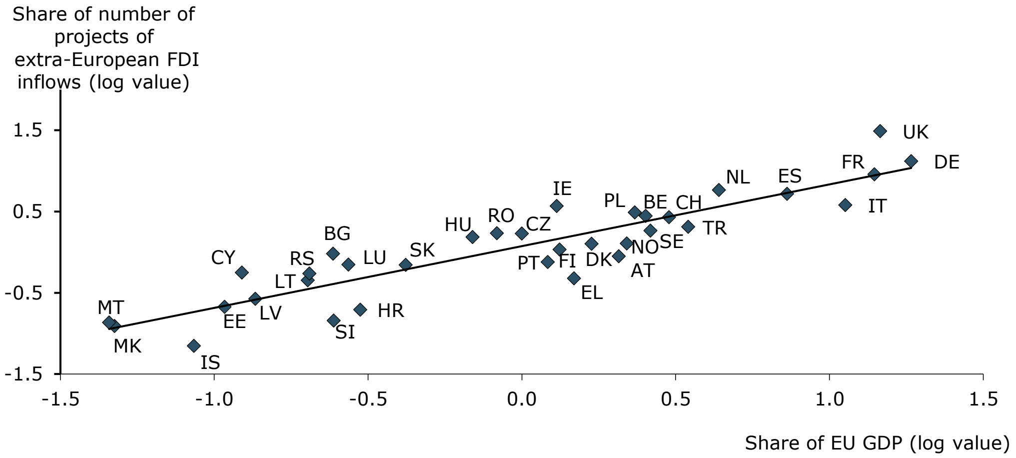
As large countries tend to attract more FDI, we need to take the economic size of the countries into account when assessing the performance of individual countries in terms of attracting FDI. If the economic size of the country was the only driver of FDI, all European countries would get the same share of FDI as their share of the combined GDP of the European countries.

Figure 4 highlights that 22 out of the 34 countries are situated above or on the line, indicating that a country performs better than expected or as expected. These countries are mostly EU Member countries. The countries performing much better than expected (i.e. important FDI inflows in relation to the GDP) in attracting extra-European FDI inflows, i.e. are the most distant from the line, are the UK (UK), Ireland (IE), Cyprus (CY) and Bulgaria (BG).

On the other side of the line, 12 countries can be found, including a variety of countries such as the Italy (IT), Norway (NO) and Croatia (HR). The countries performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Greece (EL), Slovenia (SI) and Iceland (IS).

A number of countries are performing as expected. It is the case for instance for Spain (ES) located right on the line, Switzerland slightly under the line and France (FR) slightly above the line.

Figure 4 Shares of FDI projects and GDP by country, 2003-2015



Note: Shares of the number of projects of extra-European FDI inflows: Number of projects for each country during the period 2003-2015 as a share of the total number of projects at the European level during the period 2003-2015.

Shares of EU GDP: annual average GDP value for each country during the period 2003-2015 as a share of the annual average European GDP for the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

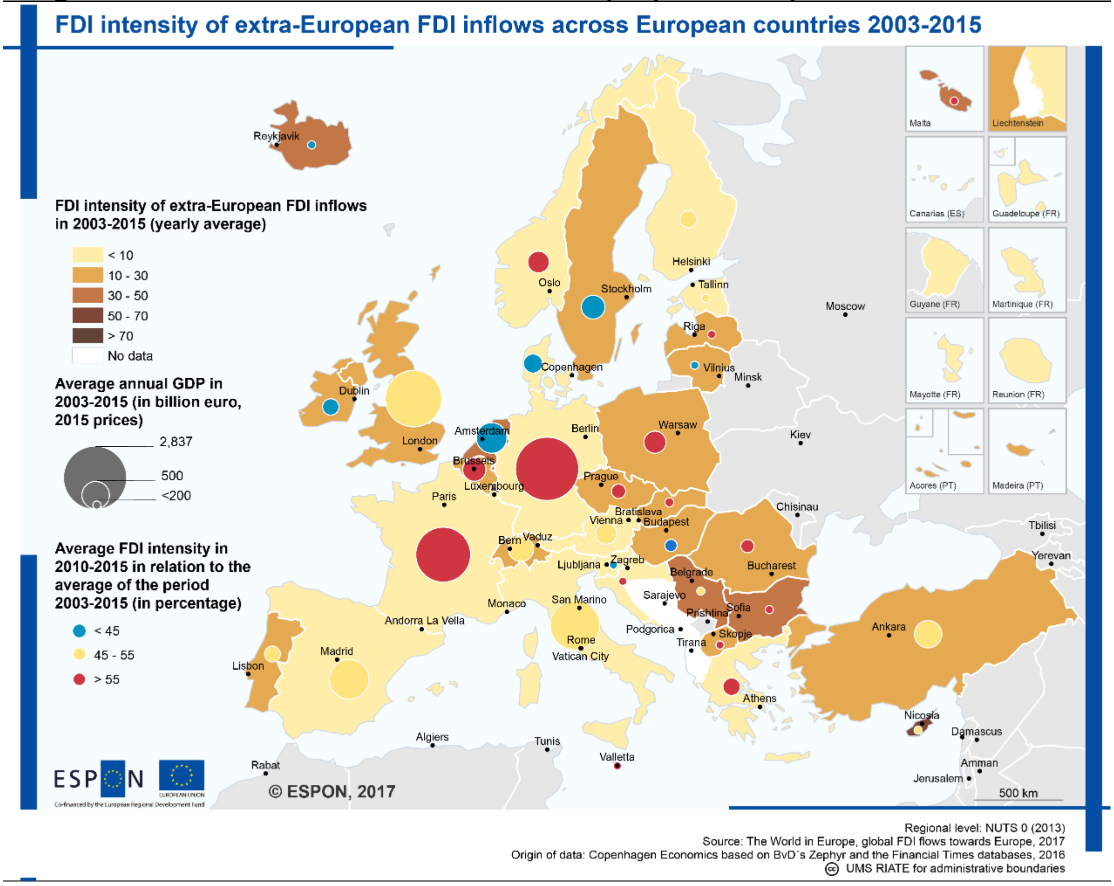
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.3 FDI intensity

Background elements:

Large countries tend to attract more FDI, and we therefore analyse FDI inflows to individual countries taking the size of their economies into account. FDI intensity is an index that corresponds to the total deal value of FDI divided by the GDP. This index is useful for comparing the performance of the European countries in attracting extra-European FDI inflows taking the economic size of the country into account. Countries that have succeeded in attracting a lot of FDI relative to their size will have a high FDI intensity.

Map 4 Trends in FDI inflows intensity by country, 2003-2015



Note: The FDI intensity is measured as the value of FDI inflows for a given year as a per cent of the country's GDP the same year (in %).

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The average index for the EU Member States is 19.2 for the overall period 2003-2015 (annual average), with a decrease from 19.9 before the crisis to 18.8 after the crisis. Map 4 shows that the FDI intensity has decreased in the majority of the EU Member States located in Central and Eastern Europe, such as in Germany, Poland and Hungary, among others, which contributes at explaining the general decrease for the EU Member States.

Individual countries:

The country with the highest FDI intensity for the period 2003-2015 (annual average) is Luxembourg with a value of 94.7 mn. EUR. The index rose from 90.0 for the period 2003-2009 to 99.1 for the period 2010-2015. As explained in Box 2, Luxembourg has a special regulatory regime that makes the country attractive for certain types of investors.

Box 2 The FDI attractiveness of Luxembourg

The large FDI stock held by Luxembourg reflects that part of the FDI inflows into the EU are channelled through holding companies in Luxembourg (Copenhagen Economics, 2016).

The attraction of Luxembourg as a place to set up holding companies is mainly due to a favourable tax regime for dividends and capital gains, which allows for a range of tax exemptions. As a result, it may be more profitable for foreign investors to structure their European investments via Luxembourg, rather than directly into the target country (KPMG, 2013). Moreover, Luxembourg also has an extensive network of double tax treaties, which reduces withholding tax rates on dividend interest payments and royalties. In practice, this means that investors from covered countries can transfer such monetary flows back to their headquarters in their home country at a reduced effective tax rate (Copenhagen Economics, 2016).

Luxembourg is also home to a large banking sector and a multitude of investment funds. Among the factors cited as drivers behind these types of investments into Luxembourg are the strategic location of the country in the EU, the political stability of the country, its multicultural and highly skilled workforce, its strong legal environment and, again, its attractive tax framework. Investment funds can benefit from a wide range of exemptions and may be subject only to a minimum income tax and a so-called subscription tax (Deloitte, 2013).

Source: ESPON FDI (2018) based on Copenhagen Economics (2016), Deloitte (2013) and KPMG (2013)

Luxembourg is followed by Cyprus (61.8), Bulgaria (43.0) and Iceland (42.5), where both Cyprus and Iceland have a higher FDI inflows intensity after the crisis and Bulgaria have a lower one.

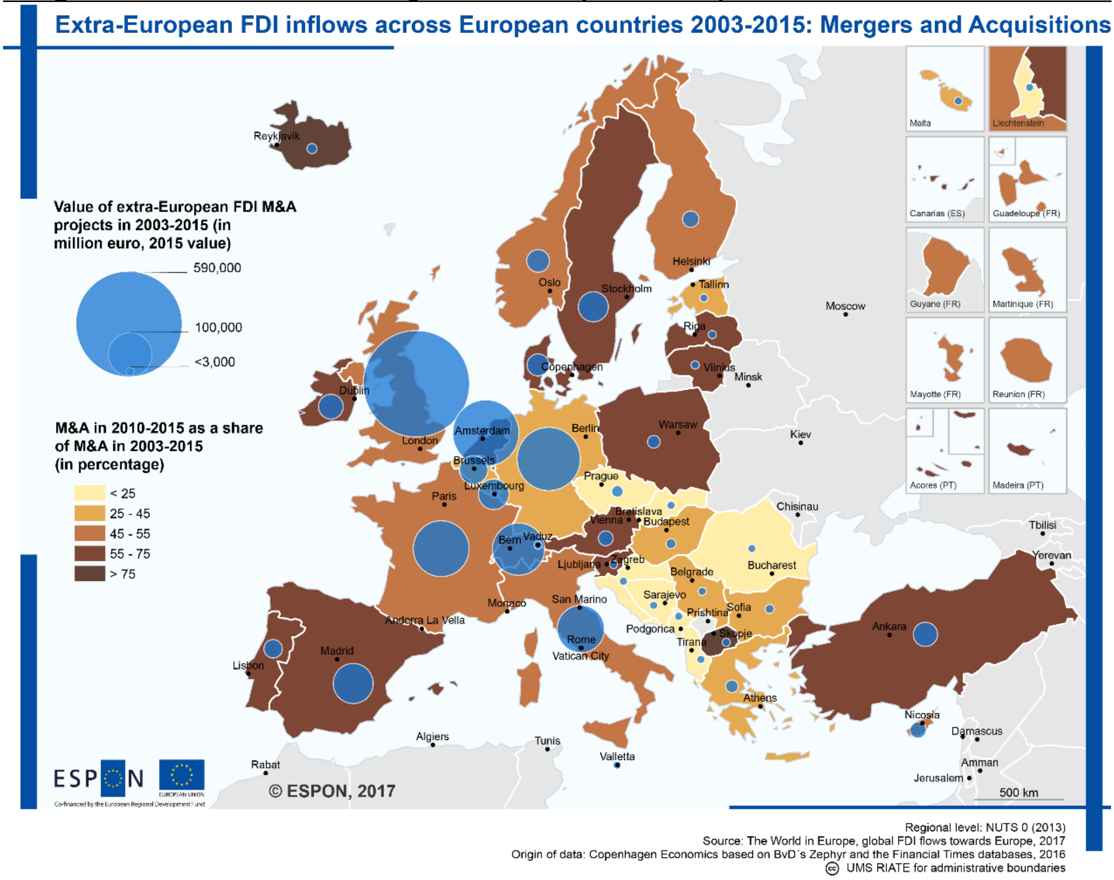
The old Member States have a slightly lower average than the EU Member States with 17.9 for the overall period. However, the index increased from 16.2 before the crisis to 20.0 after the crisis. This increase is found in the UK, the Netherlands, Spain and Italy, among others. The Eurozone has an average FDI inflow intensity of 20.0 for 2003-2015, with an increase from 19.3 before the crisis to 21.1 after the crisis. This increase is found in Luxembourg, Finland and Ireland, among others.

1.4 M&As

Background elements:

Mature markets generally have a larger stock of companies that are attractive to foreign investors and these countries will therefore tend to get more FDI through M&As. M&As take place when a foreign company acquires more than 10 per cent of the voting stock in a domestic company. M&As may help sustain existing economic activity in the economy, but this type of FDI does not expand the capital stock in the economy.

Map 5 FDI inflows through M&As by country, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

Map 5 highlights the distribution and the importance of the inflows (i.e. size of the circle) and the overtime change of M&As across countries (i.e. colour of the country). M&As account to 71 per cent of the total extra-European FDI inflows to European countries, reaching 1,897,667 EUR mn. (2015 value) for the period 2003-2015. The map confirms the observation in the previous paragraph on the fact that M&As occurs to greater extent in mature market, i.e. old EU Member States and EFTA States with shares of the extra-European FDI inflows as M&As beyond 60 per cent, and even beyond 80 per cent for 9 countries.

Individual countries:

Map 5 reveals that the largest M&As, in term of deal value during the period 2003-2015, are found in the UK with almost 600,000 mn. EUR. It is followed by the same three countries in the same order as for the total extra-European FDI inflows, i.e. Germany, the Netherlands and France.

Over time repartition of deal values of M&As does not highlight any strong similarities between countries of the same groups, cf. Map 5. For instance, old Member States have either a higher deal value in 2010-2015 than in 2003-2009 (e.g. Spain, the Netherlands), a similar value (e.g. Italy) or lower value (e.g. Belgium, France and Germany). In addition, the new Member States show opposite trends over time with the majority of the Balkan countries having lower value and Poland, Lithuania and Latvia having higher value.

There are large differences between countries in the share of M&A deals out of total FDI deal value. An M&A value share higher than 50 per cent indicates that a country gets the majority of its extra-European FDI inflows by the way of M&As. Consequently, a value below 50 per cent indicates that a country gets the majority of its extra-European FDI inflows by the way of greenfield investments. The highest shares of M&As can mostly be found in old Member States and micro States. Liechtenstein has 100 per cent of its total extra-European FDI inflows in 2003-2015 from M&As; Luxembourg has 96 per cent and both Cyprus and Switzerland have 93 per cent each. The lowest share of M&As can be found in the majority of the Balkan countries, the Baltic States and several Eastern European countries. Slovakia has only 1 per cent of its total extra-European FDI inflows in 2003-2015 from M&As; the former Yugoslav Republic of Macedonia has 3 per cent and Albania 4 per cent.

<u>Individual countries with share FDI inflows larger than GDP:</u>

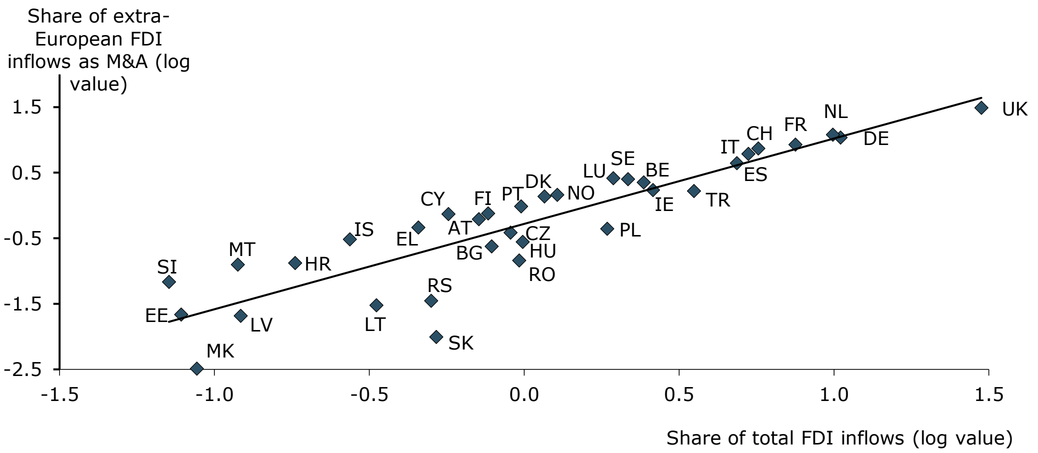
If the different types of FDI were driven by the same underlying investor motives and location characteristics, the countries' share of M&As should match their share of FDI.

Figure 5 highlights that 20 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The countries performing much better than expected (i.e. important FDI inflows in relation to the GDP) in attracting extra-European FDI inflows as M&As, i.e. are the most distant from the line, are Luxembourg (LU) and Cyprus (CY).

On the other side of the line, the remaining 14 of the 34 countries can be found, also including a variety of countries. The country performing much worse than expected in attracting extra-European FDI inflows, i.e. the most distant from the line, is Slovakia (SK).

A number of countries are performing as expected. It is the case for instance for Ireland (IE) located slightly under the line and Spain (ES) slightly above the line.

Figure 5 Shares of M&As and total FDI by country, 2003-2015



Note: Shares of extra-European FDI inflows as M&A: Deal values of M&As for each country during the period 2003-2015 as a share of the total deal value of M&As at the European level during the period 2003-2015.

Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

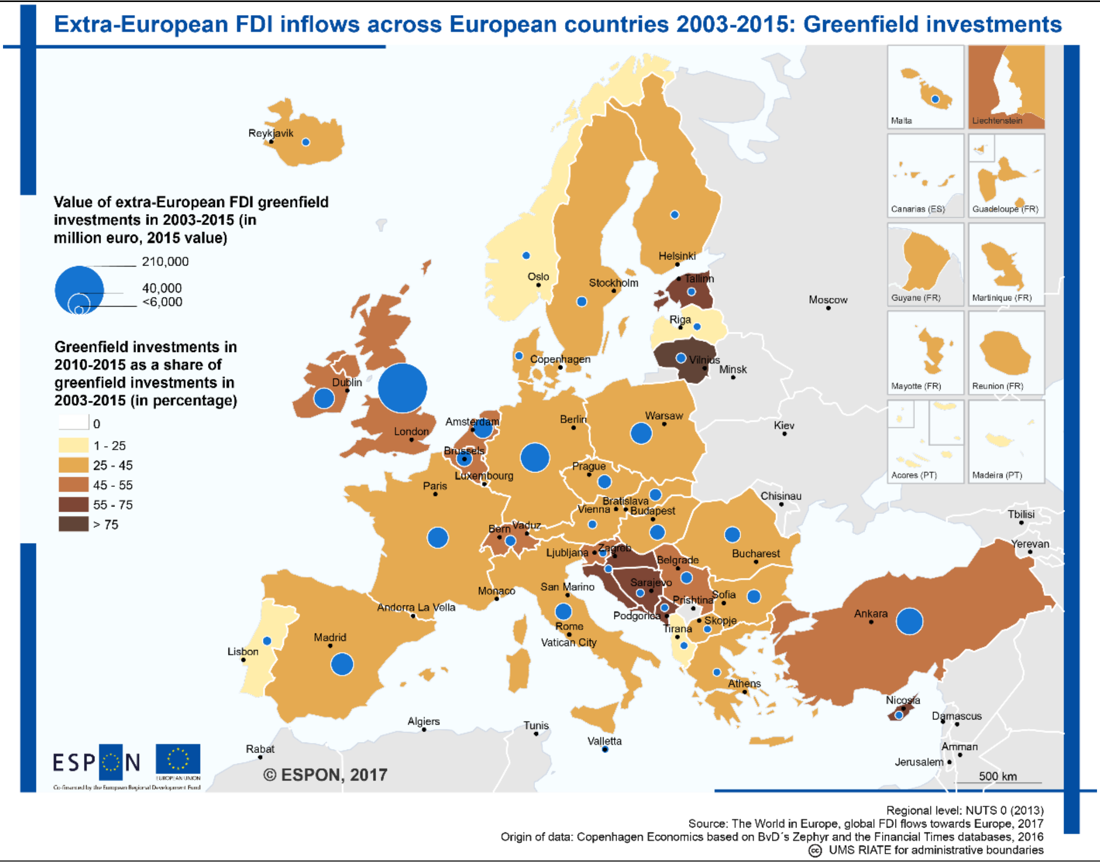
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.5 Greenfield investments

Background elements:

Greenfield investments tend to take place in emerging economies with expanding markets or in countries with abundance of important resources. Map 6 most probably highlights a different ranking of European countries when it comes to attracting this kind of FDI in comparison to M&As.

Map 6 FDI inflows through greenfield investments by country, 2003-2015



Source: ESPON FDI (2018) based BvD´s Zephyr and the Financial Times databases

Overall description:

Greenfield investments account for 29 per cent of the total extra-European FDI inflows to European countries, corresponding to EUR 775,979 mn. (2015 value) in the period 2003-2015.

As expected, the distribution of greenfield investments across European countries is different from the distribution of M&As. The former does indeed not have any clear geographical pattern, unlike the latter that is more concentrated in North-West Europe.

Individual countries:

The UK and Germany remain the first and second most attractive countries, with respectively 210,236 and EUR 72,499 mn. (2015 value). However, the other most attractive countries are not the Netherlands or Switzerland, but Turkey, Spain and Poland. Each of them attracted more than EUR 40,000 mn. (2015 value) during the entire period 2003-2015. A number of Eastern European countries attract a relatively high value of greenfield investments, in comparison to M&As. Hungary is one of them with EUR 21,029 mn. in greenfield investments, corresponding to almost 80 per cent of its total extra-European FDI inflows. The proportion of greenfield investments is even higher in other Eastern European countries, such as in Romania (89 per cent) or Slovakia (98 per cent). Balkan and Baltic countries and microstates remain the countries attracting the least greenfield investments, just as for M&As, with Malta, Albania and Slovenia attracting less than EUR 800 mn. each; and Liechtenstein with none.

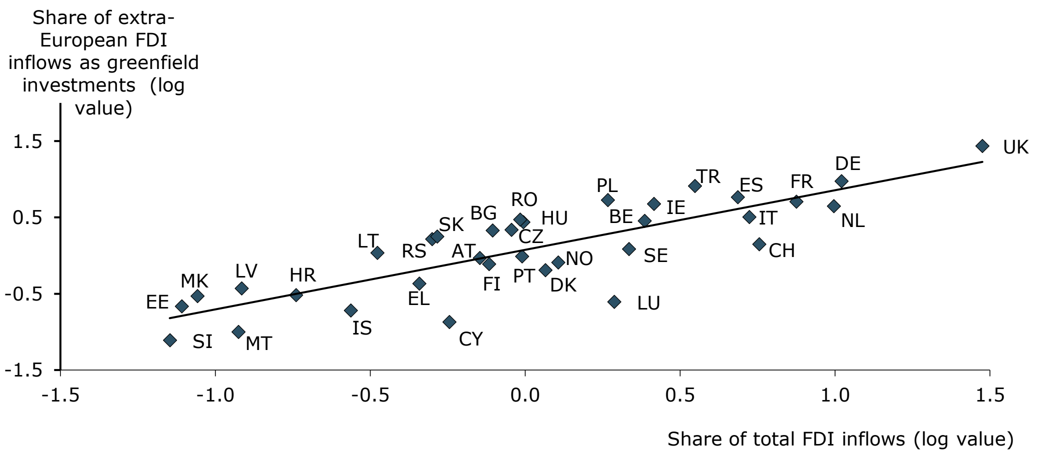
<u>Individual countries with share FDI inflows larger than GDP:</u>

Figure 6 highlights that 18 of the 34 countries are situated above the line, indicating that a country performs better than expected. Most of them are old EU Member States. The countries performing much better than expected in attracting extra-European FDI inflows as greenfield investments, i.e. the most distant from the line, are Poland (PL) and Turkey (TK).

On the other side of the line, the remaining 16 of the 34 countries can be found, mostly new EU Member States and candidate countries. The countries performing much worse than expected in attracting extra-European FDI inflows as greenfield investments, i.e. the most distant from the line, are Luxembourg (LU) and Cyprus (CY).

A number of countries are performing as expected. It is the case for instance for Austria (AT) located slightly above the line and Croatia (HR) slightly under the line.

Figure 6 Shares of greenfield investments and FDI by country, 2003-2015



Note: Shares of extra-European FDI inflows as greenfield investments: Deal values of greenfield investments for each country during the period 2003-2015 as a share of the total deal value of greenfield investment at the European level during the period 2003-2015.

Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data is available for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases. GDP data is from Eurostat.

1.6 FDI inflows towards Europe across sectors

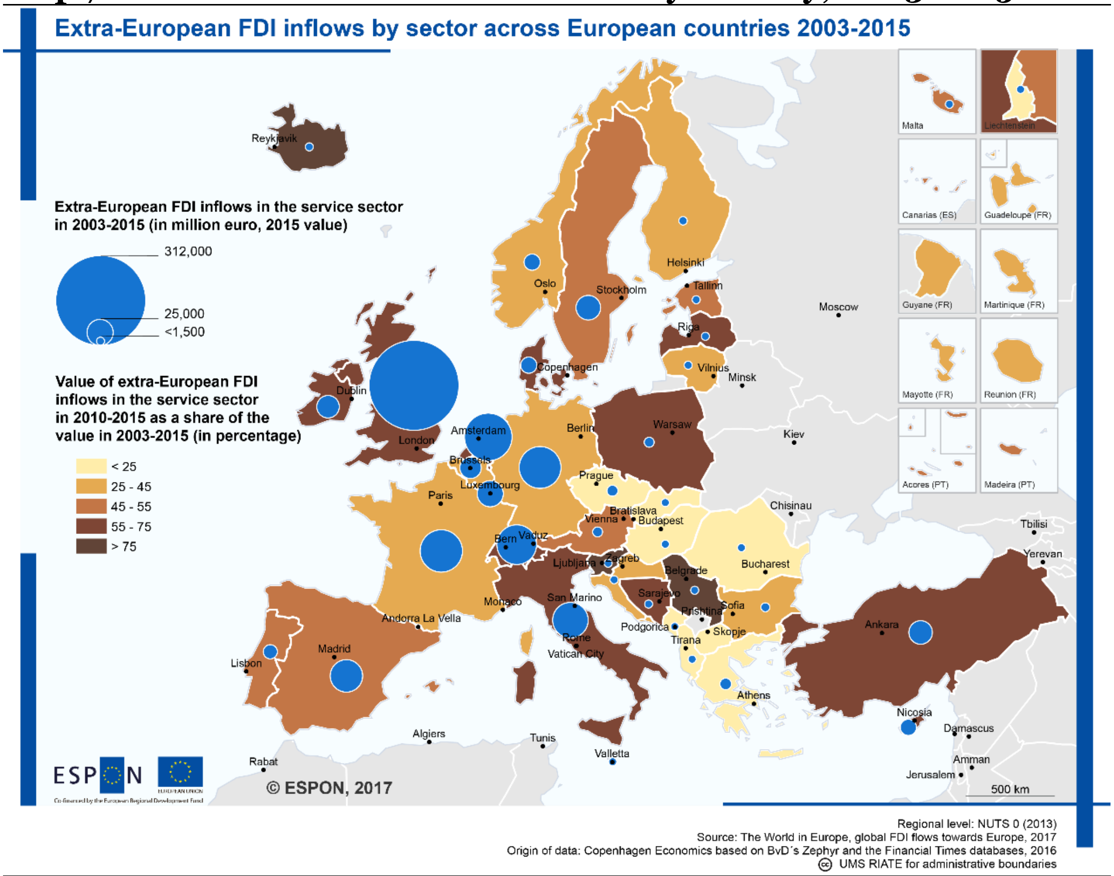
We analyse the distribution of inward FDI flows to the main economic sectors across European countries. Data on M&As includes information about the sector of the target. The target corresponds to the entity that receives FDI. The sectors are categorised using the NACE classification (from the French: ***N**omenclature statistique des **a**ctivités économiques dans la **C**ommunauté Européenne*). This section illustrates the two main sectors, namely the service sector and the manufacturing sector at the national level. They respectively correspond to 46 per cent and 35 per cent of the total value of M&A FDI inflows in 2003-2015.

1.6.1 FDI inflows in the European service sector

<u>Background elements:</u>

The service sector comprises eight of the categories in the NACE 1 classification. It includes the following categories: Wholesale and retail trade; Repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities; Information and communication; Financial and insurance activities; Professional, scientific and technical activities; Administrative and support service activities; and Public administration and defence, compulsory social security.

Map 7 FDI inflows in the service sector by country, 2003-2015



Note: Information provided to M&As only.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The number of projects in the service sector is 15,110 for the period 2003-2015 with a total deal value above EUR 875,000 mn. (2015 value). The countries attracting the most are mainly old EU Member States, whereas values are lower in in the Balkan and Baltic countries (Map 7).

Individual countries:

The largest beneficiary is the UK with 42 per cent of all the extra-European FDI inflows projects and 36 per cent of the total deal value in the service sector during 2003-2015, reaching the value of EUR 312,000 mn. (2015 value). As for other FDI indicators, the UK is followed, with a distance, by the Netherlands, France and Germany each having between 7 per cent and 8 per cent of the total extra-European FDI inflows projects and total deal value in the service sector between 8 per cent and 10 per cent for each of these three countries (Map 7).

The lowest figures in extra-European FDI inflows per country as a share of the total extra-European FDI inflows in the European countries are found in Central and Eastern Europe, especially in the Balkans with values close to zero.

Over time, trend data reveals that Iceland, Slovenia and Serbia attracted more than 85 per cent of their extra-European FDI inflows in the service sector after the crisis (2010-2015). On the contrary, Slovakia, Hungary and Greece attracted more than 90 per cent of their extra-European FDI inflows in the service sector before the crisis (2003-2009).

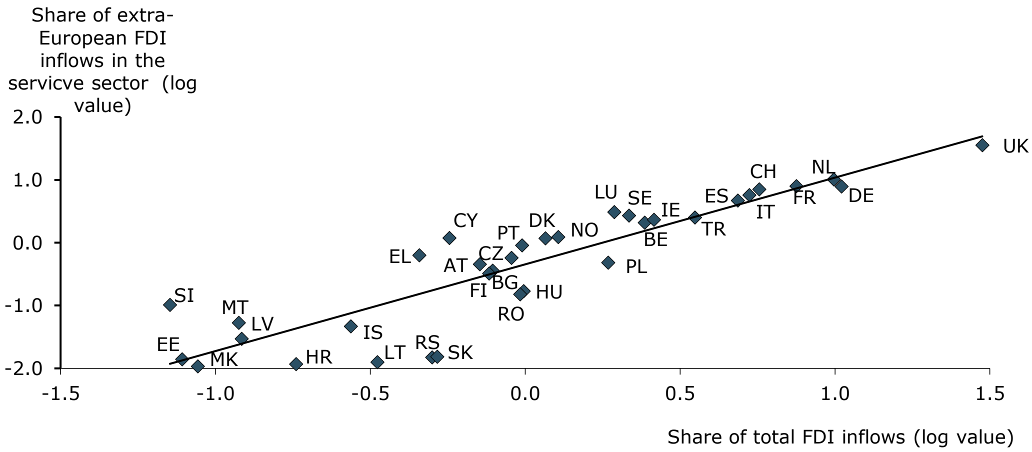
Individual countries with share FDI inflows larger than GDP:

Figure 7 highlights that 22 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The countries performing much better than expected (i.e. important FDI inflows in relation to the GDP) in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Slovenia (SI) and Cyprus (CY).

On the other side of the line, the 12 countries can be found, also including a variety of countries. The countries performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Serbia (SR) and Slovakia (SK).

A number of countries are performing as expected. It is the case for instance for Turkey (TR) located right on the line, the Netherlands (NL) slightly under the line and Estonia (EE) slightly above the line.

Figure 7 Shares of FDI in the service sector and of total FDI by country, 2003-2015



Note: Shares of extra-European FDI inflows in the service sector: Deal values in the service sector for each country during the period 2003-2015 as a share of the total deal value of M&As at the European level during the period 2003-2015.

Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

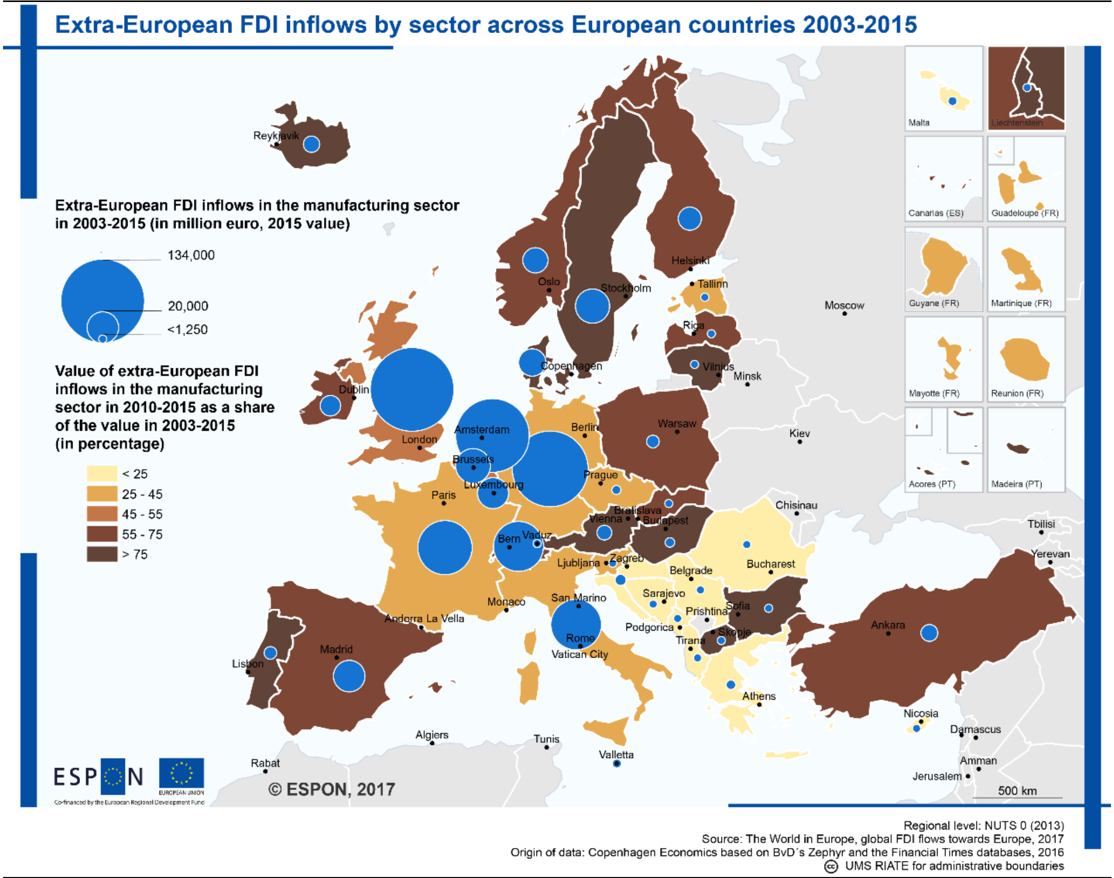
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.6.2 Manufacturing sector

Background elements:

The manufacturing sector corresponds to one single category in the NACE 1 classification.

Map 8 FDI inflows in the manufacturing sector by country, 2003-2015



Note: Information included for M&As only.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The number of projects in the manufacturing sector is 8,348 for the period 2003-2015 with a total deal value above EUR 665,000 mn. (2015 value). The countries attracting the most are strong industrial countries with mature economies, mostly old EU Member States, whereas values are lower in in the Balkan countries (Map 8).

Individual countries:

The largest beneficiary is the UK, as for the service sector, with the difference that it does not distance other countries to the same extent. The deal value of extra-European FDI inflows in the manufacturing sector in the UK represents 20 per cent of the total across European countries. Germany and the Netherlands have 16 per cent each and France has 8 per cent (Map 8).

The distribution of the deal value varies greatly between the two periods of analysis (before and after the crisis). Data on deal value of M&As reveals that 100 per cent has been effectuated in 2010-2015 in both the former Yugoslav Republic of Macedonia and Liechtenstein. This value is above 80 per cent for Iceland, Sweden, Hungary and Lithuania. On the contrary, the data also reveals that 100 per cent of the deal value of extra-European FDI inflows in the manufacturing sector occurred in 2003-2009 Albania. The situation is similar in Croatia, Bosnia & Herzegovina and Romania with figures above 90 per cent. Note that no extra-European FDI inflows occurred in the manufacturing sector in Montenegro in the period 2003-2015.

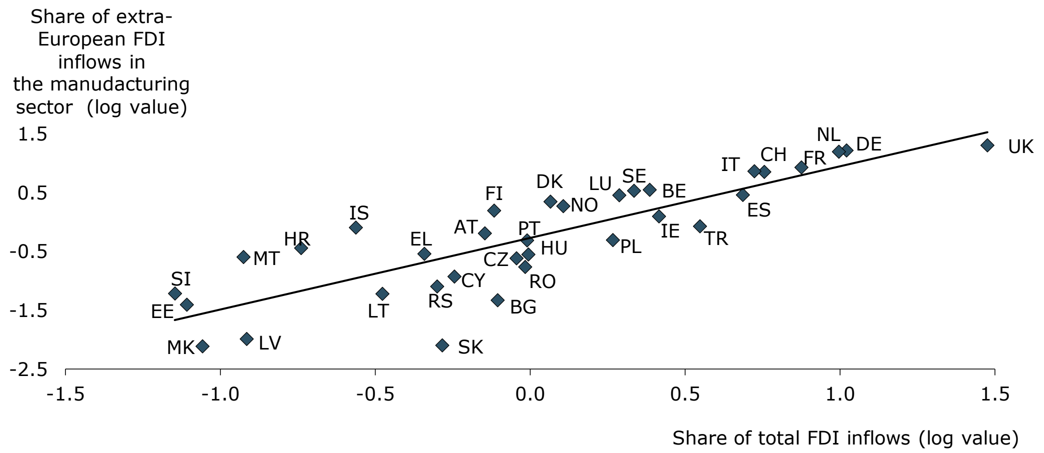
Individual countries with share FDI inflows larger than GDP:

Figure 8 highlights that 18 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The countries performing much better than expected (i.e. important FDI inflows in relation to the GDP) in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Iceland (IS) and Malta (MT).

On the other side of the line, the 16 countries can be found, also including a variety of countries. The country performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, is Slovakia (SK).

A number of countries are performing as expected. It is the case for instance for Greece (EL) located slightly above the line and Portugal (PT) slightly under the line.

Figure 8 Shares of FDI in the manufacturing sector and total FDI by country, 2003-2015



Note: Shares of extra-European FDI inflows in the manufacturing sector: Deal values in the manufacturing sector for each country during the period 2003-2015 as a share of the total deal value of M&As at the European level during the period 2003-2015.

Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

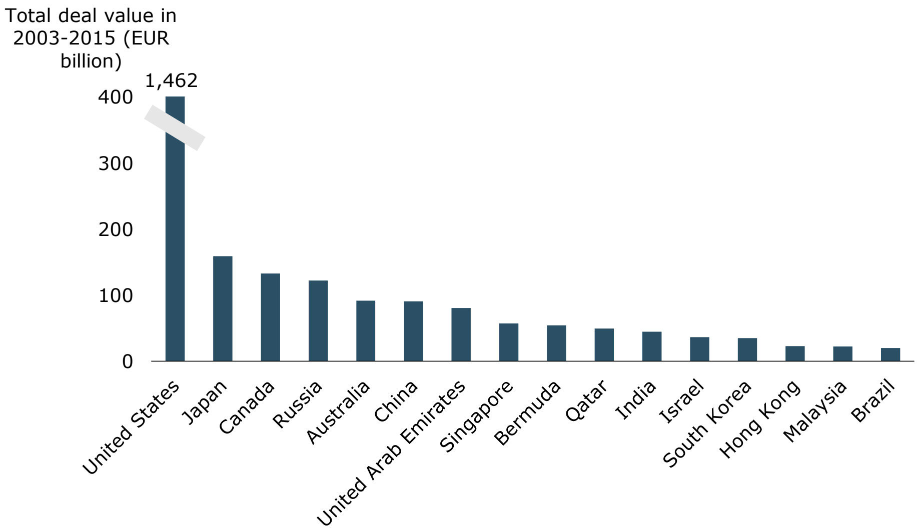
1.7 Source country

Background elements:

Extra-European FDI inflows to European countries originate from 115 countries. The risk of investing abroad may be smaller if there exist some relationship between the two countries, e.g. common language, historical ties or geographic adjacency.

A look at the collected data in Figure 9 reveals that the main source country for extra-European FDI inflows is the US. The second country is Japan. This section will therefore look into these two countries. Furthermore, we decided to also look into the BRIC countries.

Figure 9 Main source countries of FDI towards Europe, 2003-2015

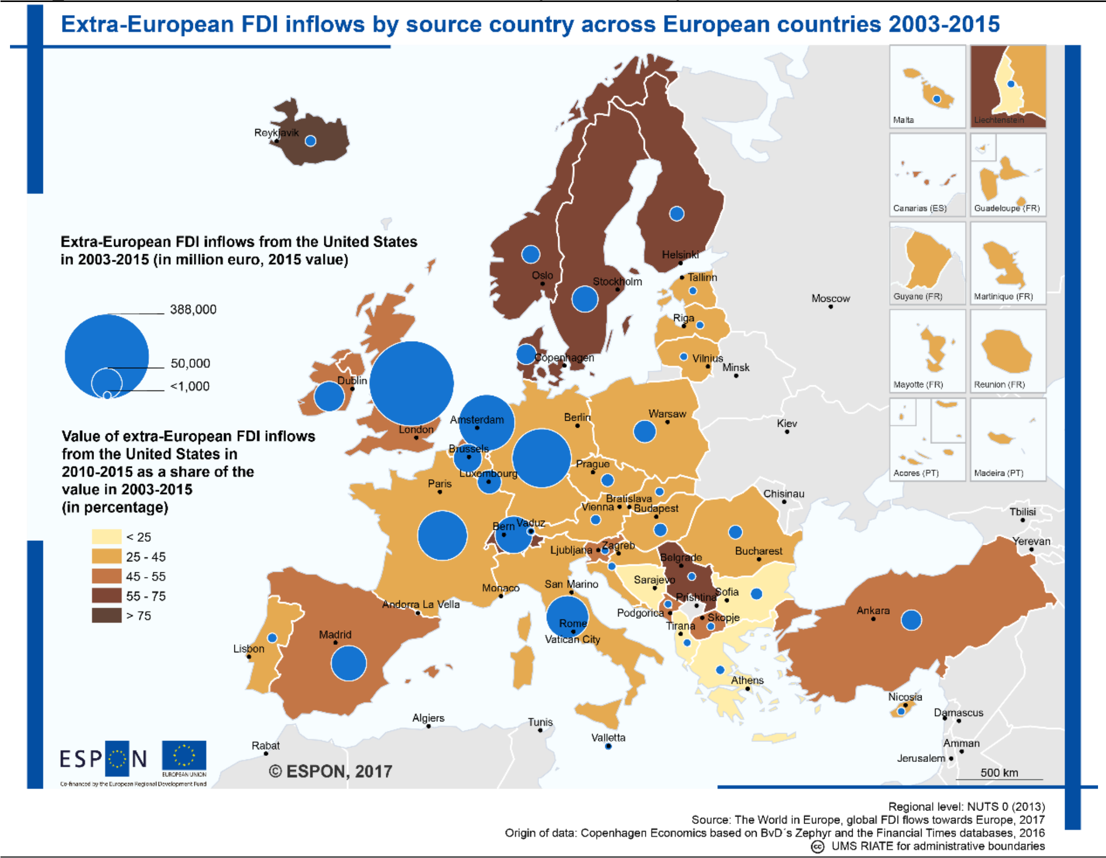


Note: Source countries with at least 1 per cent of the total deal value 2003-2015.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.7.1 Trends in FDI inflows from the US

Map 9 FDI inflows from the US by country, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

<u>Overall description:</u>

FDI flows from the US to Europe amount for a total of 22,129 projects and EUR 1,465,000 mn. (2015 value) for the period 2003-2015. It represents 58 per cent of the total number of projects towards EU and 55 per cent of the total deal value for that period.

<u>Individual countries:</u>

Map 9 highlights that the largest inflows from the US went to the UK: 6,644 projects and a total deal value above EUR 388,000 mn. (2015 value), corresponding to 30 per cent of the total projects and 26 per cent of the deal value from the US. Aside from having an interactive investment climate and a large domestic market, part of the US attraction to the UK is also due to a common language and a shared history (Copenhagen Economics, 2016). The other important receiving countries are Germany, the Netherlands and France. In relation to their population size, both Ireland and Switzerland attract a large amount of FDI from the US.

The US attraction to Ireland is due to different complementary factors. These include:

- A growing, young, educated and English-speaking labour force

- A strategic focus on developing high-value added industries
- A resilient economy, political stability and a transparent tax and legal framework
- An attractive taxation rate and a liberal approach to the movement of capital
- Competitive costs relative to the rest of Europe
- Interviews with large Irish-based US companies

Extra-European FDI inflows from the US is higher than the European average of 55 per cent in a number of countries. Iceland receives more than 90 per cent of its extra-European FDI inflows from the US. Croatia (84 per cent), Denmark (74 per cent) and Ireland (73 per cent) received also a large majority of inflows from the US.

Over time, the majority of the European countries have lower inflows from the US. In fact, more than 20 countries had higher inflows from the US in 2003-2009 than in 2010-2015. These countries are located in Central and Eastern Europe, as well as a few old Member States, mostly countries part of the Eurozone. The trend is inverse in the Nordic countries and Serbia with more flows from the US in the second period.

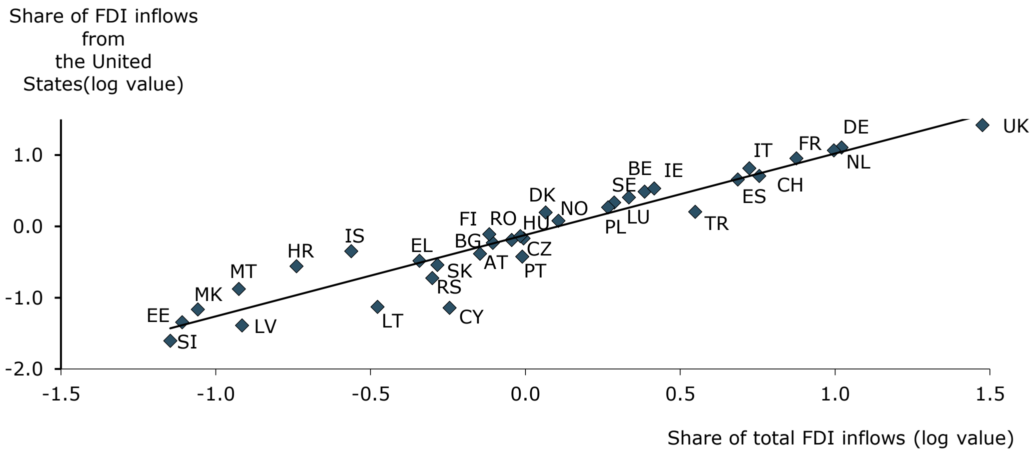
Individual countries with share FDI inflows larger than GDP:

Figure 10 highlights that 21 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The countries performing much better than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Iceland (IS) and Croatia (HR).

On the other side of the line, the 13 of the 34 countries can be found, also including a variety of countries. The country performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, is Cyprus (CY).

A number of countries are performing as expected. It is the case for instance for Spain (ES) located right on the line, Switzerland (CH) slightly under the line and Estonia (EE) slightly above the line.

Figure 10 Shares of US and total FDI by country, 2003-2015



Note: Shares of FDI inflows from the US: Deal values from the US for each country during the period 2003-2015 as a share of the total deal value from the US at the European level during the period 2003-2015.

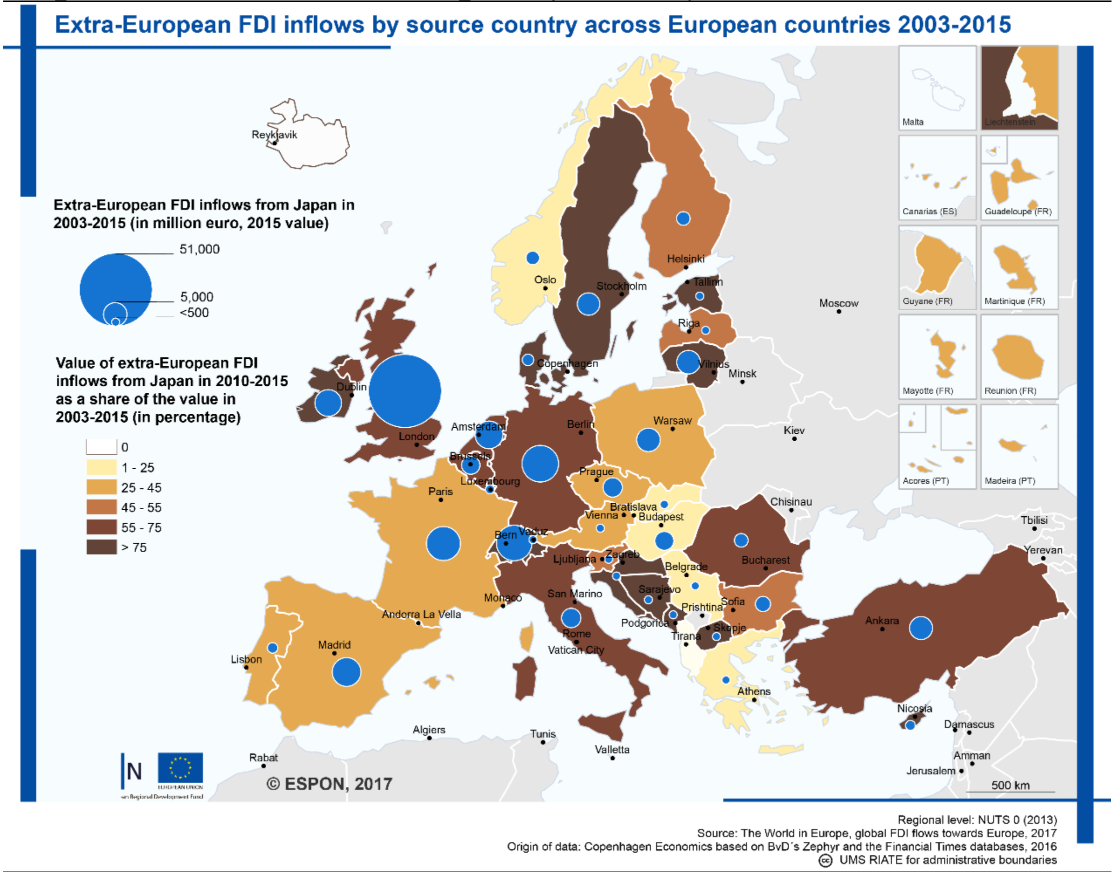
Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.7.2 Trends in FDI inflows from Japan

Map 10 FDI inflows from Japan by country, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

FDI flows from Japan to Europe amount to a total of 2,609 projects and about EUR 160,000 mn. (2015 value) for the period 2003-2015. It represents 6 per cent of the total number of projects towards Europe and 7 per cent of the total deal value for that period, which is much less than the FDI inflows from the US.

Individual countries:

Map 10 highlights that the largest inflows from Japan went to the UK: 507 projects and a total deal value above EUR 51,000 mn. (2015 value), corresponding to 19 per cent of the total projects and 32 per cent of the deal value from Japan. The other important receiving countries are Germany, Switzerland and France.

The FDI inflows from Japan correspond to the majority of extra-European FDI inflows for one European country: Lithuania with a total extra-European FDI inflows deal value of EUR 8,800 mn. in 2003-2015 received about EUR 5,472 mn. from Japan from seven transactions including a large transaction of EUR 5,424 mn. in 2011. It corresponds to 61 per cent of the total deal value. In comparison, Lithuania received only 12 per cent from the US.

The other European countries received 15 per cent or less of their extra-European FDI inflows deal value from Japan. A number of countries in Eastern Europe have figures between 10 per cent and 15 per cent:

There are 20 European countries where FDI inflows from Japan have been more important in 2010-2015 than in 2003-2009, whilst the trend has been stable for one country (Finland) and negative for 13 countries. Both positive and negative trends can be found across EU Member States, non EU Member States, old Member States, new Member States and across the Eurozone.

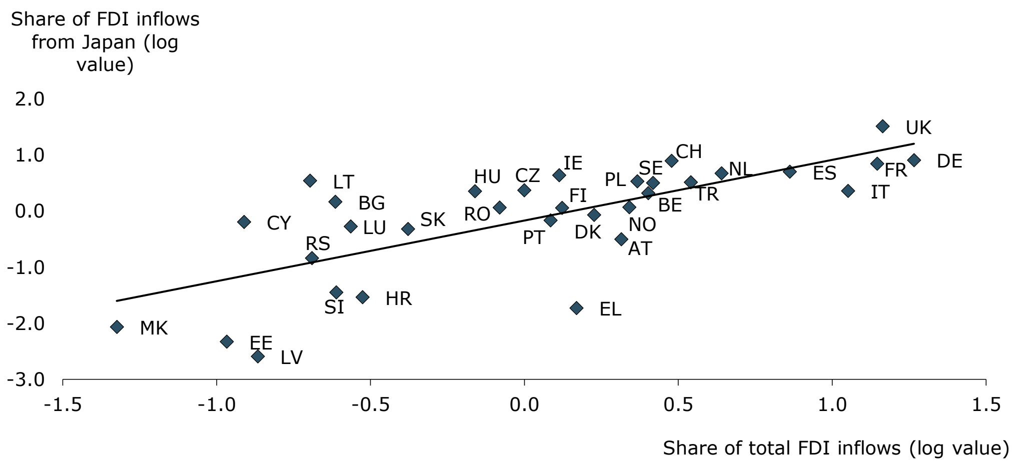
Individual countries with share FDI inflows larger than GDP:

Figure 11 highlights that 17 of the 32 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The country performing much better than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, is Lithuania (LT).

On the other side of the line, 15 of the 32 countries can be found, also including a variety of countries. The countries are performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Greece (EL) and Latvia (LV).

A number of countries are performing as expected. It is the case for instance for Spain (ES) and Turkey (TR) slightly under the line.

Figure 11 Shares of Japanese and total FDI by country, 2003-2015



Note: Shares of FDI inflows from Japan: Deal values from Japan for each country during the period 2003-2015 as a share of the total deal value from Japan at the European level during the period 2003-2015.

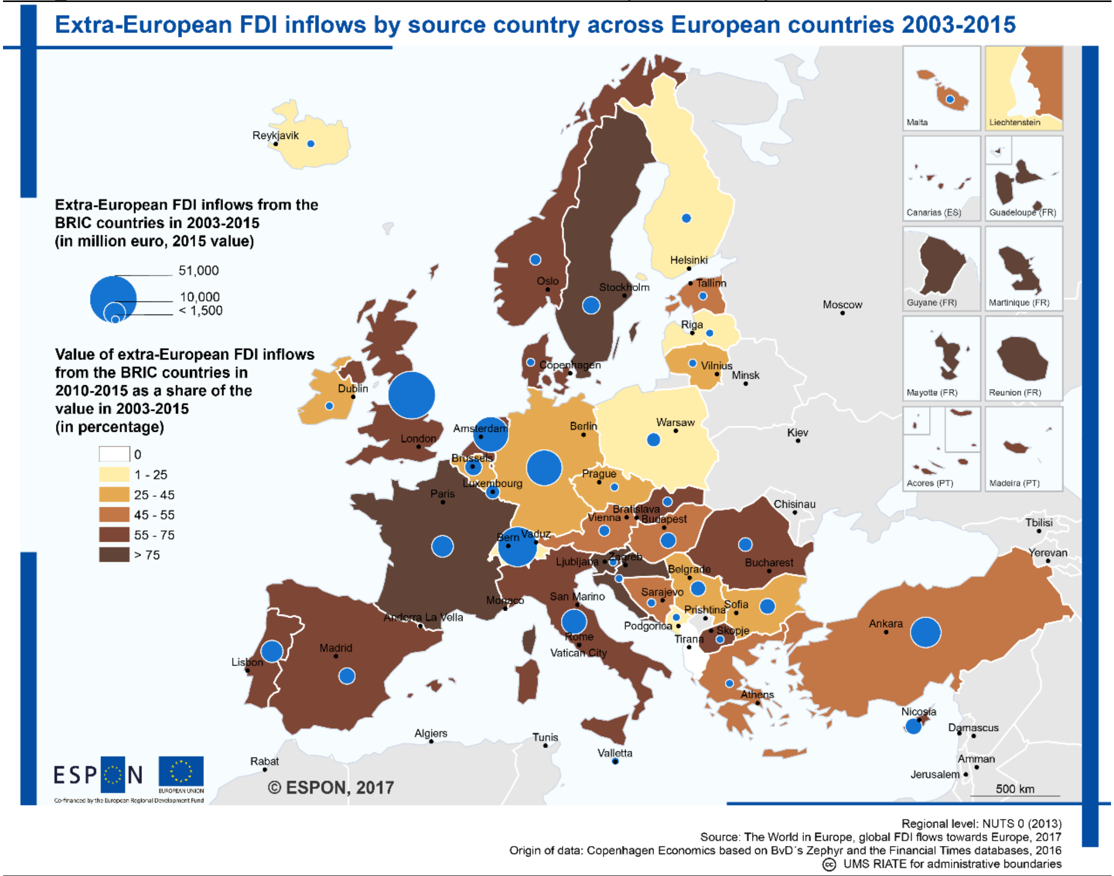
Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro. No flows from Japan to Iceland and to Malta.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

1.7.3 Trends in FDI inflows from the BRIC countries

Map 11 FDI from the BRIC countries by country, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

FDI flows from the BRIC countries (Brazil, Russia, India and China) to Europe amount to a total of 3,809 projects and about EUR 277,000 mn. (2015 value) for the period 2003-2015. It represents 10 per cent of the total number of projects towards EU and 10 per cent of the total deal value for that period, which is much less than the FDI inflows from the US, but slightly more than the FDI inflows from Japan.

Individual countries:

Map 11 highlights that the largest inflows from the BRIC countries went to the UK: 838 projects and a total deal value above EUR 50,000 mn. (2015 value), corresponding to 22 per cent of the total projects and 18 per cent of the deal value from the BRIC countries. The other important receiving countries are Switzerland, the Netherlands, Germany and Turkey.

The FDI inflows from the BRIC countries correspond to the majority of extra-European FDI inflows for one European country: Slovenia with a total extra-European FDI inflows deal value of EUR 1,900 mn. in 2003-2015 received about EUR 1,146 mn. from the BRIC countries, from ten transactions including a large transaction of EUR 774 mn. in 2011. It corresponds to 60 per cent of the total deal value. In comparison, Slovenia received 19 per cent from the US and 3 per cent from Japan.

The other European countries received between 0 per cent and 42 per cent of their extra-European FDI inflows deal value from the BRIC countries. Portugal, Cyprus, Serbia, Estonia, Latvia and Bosnia & Herzegovina received more than 35 per cent each, whereas Albania and Liechtenstein received no FDI inflows from the BRIC countries during the period 2003-2015.

There is no clear trend over time: 15 countries had increasing FDI inflows from the BRIC countries after the crisis, three had similar FDI inflows before and after the crisis and 13 countries had decreasing FDI inflows from Japan after the crisis. It can be observed though that countries in both south-west Europe and Scandinavia had an increase after the crisis.

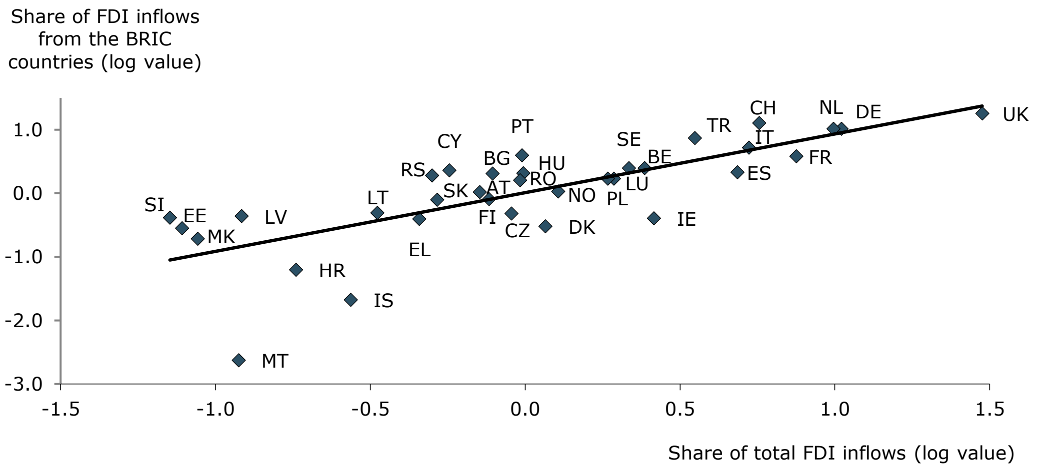
Individual countries with share FDI inflows larger than GDP:

Figure 12 highlights that 21 of the 34 countries are situated above the line, indicating that a country performs better than expected. These countries have very diverse profiles. The countries performing much better than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, are Portugal (PT) and Cyprus (CY).

On the other side of the line, the 13 of the 34 countries can be found, also including a variety of countries. The country performing much worse than expected in attracting extra-European FDI inflows, i.e. are the most distant from the line, is Malta (MT).

A number of countries are performing as expected. It is the case for instance for Germany (DE), Sweden (SE) and Belgium (BE) located slightly above the line.

Figure 12 Shares of BRIC and total FDI by countries, 2003-2015



Note: Shares of FDI inflows from the BRIC countries: Deal values from the BRIC countries for each country during the period 2003-2015 as a share of the total deal value from the BRIC countries at the European level during the period 2003-2015.

Shares of total FDI inflows: deal values of FDI for each country during the period 2003-2015 as a share of the total deal value at the European level during the period 2003-2015.

No data for Albania, Bosnia & Herzegovina, Liechtenstein and Montenegro.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Box 3 Characteristics of Chinese FDI in Europe

Chinese greenfield investments in the EU are concentrated in a few large Member States with Germany, the UK and France being the largest recipients. Germany is the single largest destination for Chinese greenfield investments and has received a total of 35 per cent of all Chinese greenfield projects over this period. The main motive for Chinese investments is likely to be market-seeking. On a sectoral level, the largest sector is electronic devices and components followed by industrial machinery. In the UK, software and IT is one of the larger sectors for Chinese greenfield investments, while communications is among the larger sectors in France.

Recent increases in Chinese M&As in the EU have partly been spurred by a weak financial position of EU firms during the crisis, with 83 per cent of Chinese M&A investments in Europe having been concluded between 2009 and 2013 (EU SME Centre, 2014). One of the primary drivers is the acquisition of the technology brands and expertise of Western European firms, which allows Chinese investors to move up the value chain (Clegg and Voss, 2012, EU SME Centre, 2014).

The drivers of Chinese FDI into the EU are, however, likely to differ for different investor types, especially between government investors (state-owned transnational companies (TNCs) and private investors. Over the period 2000-2010, private Chinese investors in the EU have been relatively more focused on deals involving high technology firms, while government investors have shown a relative preference for firms in the energy and power sector (Clegg and Voss, 2012). This suggests that the motivation of government investors in particular may contain an element of resource-seeking behaviour (Copenhagen Economics, 2016)

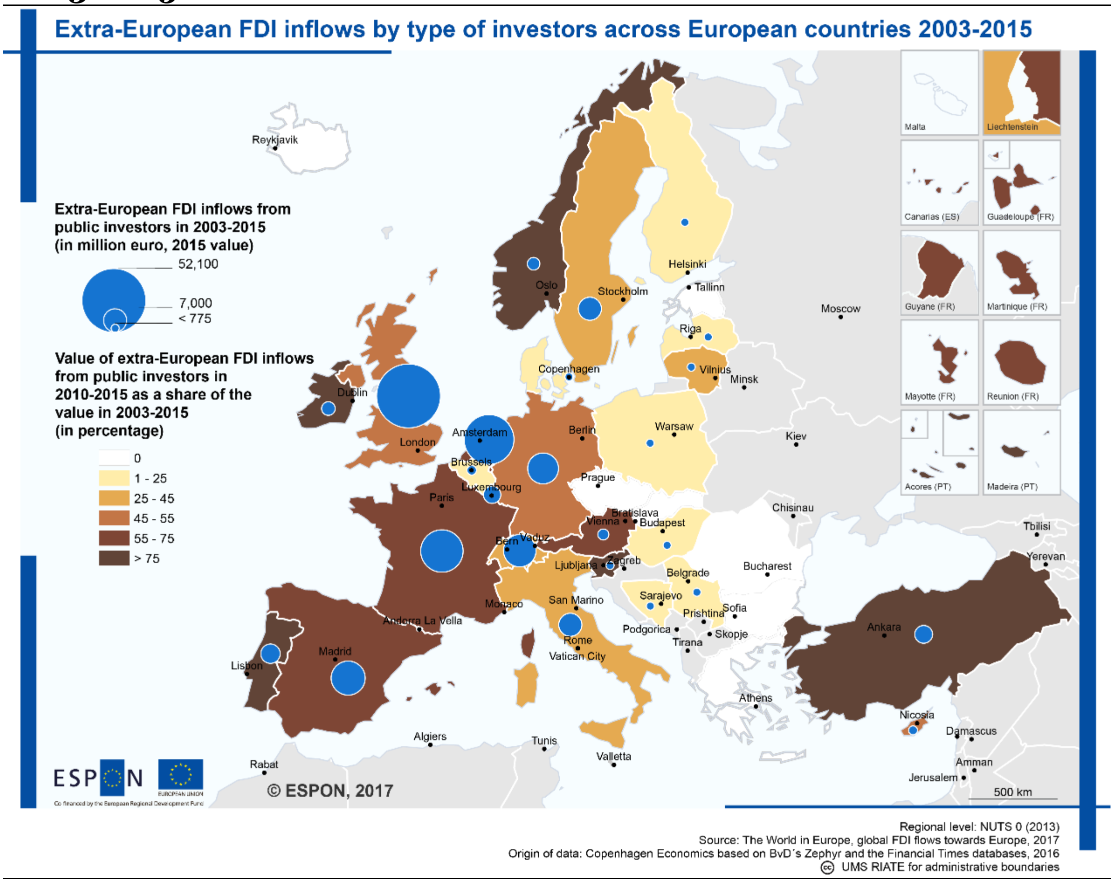
Source: ESPON FDI (2018) based on EU SME Centre (2014), Clegg and Voss (2012) and Copenhagen Economics (2016)

1.8 Type of investor

Background elements:

Different types of investors (e.g. private vs. public investors) have different motives for undertaking cross-border investments and this will show up in the data. We therefore analyse the pattern of FDI into Europe across different types of investors with the example of inflows from public investors. For M&As, the investor is classified as a public investor if the acquirer is labelled “Public authority, State, Government”. It is assumed that no greenfield FDI is undertaken by a public entity. Hence, a public investor is a firm or entity that is controlled by a public authority, state or government.

Map 12 Trends in FDI inflows from public investors by country, 2003-2015



Note: For M&As, the investor is classified as a public investor if the acquirer is labelled “Public authority, State, Government”. It is assumed that no greenfield FDI is undertaken by a public entity.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

Map 12 shows trends in FDI inflows from public investors by country for the period 2003-2015. The total deal value from of extra-European FDI inflows from public investors amounts for of

EUR 184,700 mn. and 580 projects, corresponding respectively to 7.1 per cent of the total deal value and 2.8 per cent of the total number of projects.

Individual countries with high FDI inflows:

The figure highlights that the largest inflows from public investors went to the UK: 163 projects and a total deal value around EUR 52,100 mn. (2015 value), corresponding to 28 per cent of the total projects and 28 per cent of the deal value from public investors. The other important receiving countries are the Netherlands, France and Spain.

There is no clear trend over time: 10 countries had increasing FDI inflows from public investors after the crisis and 12 countries had decreasing FDI inflows from public investors after the crisis. Furthermore, seven countries did not receive any FDI inflow from public investors in 2003-2015 and 4 countries in 2010-2015. In addition, no clear trend can be drawn by the geographical distribution at the country level.

1.9 Main findings

The analysis of extra-European FDI inflows across countries in Europe brings new insight on its distribution. Large and economically mature countries tend to attract more FDI, such as the UK, Germany, France and the Netherlands. The distribution of the types of FDI goes in accordance with the literature of this topic, i.e. the largest amount of M&As to mature and large economies and relatively large amount of greenfield investments to more emerging economies with expanding markets or in countries with abundance of important resources.

Comparing the performance of a country with its GDP, it can be stated that some countries perform better than expected whilst others underperform. The UK, the Netherlands, Luxembourg and Switzerland do perform better than expected in the majority of the indicators selected and mapped in this section. However, France, Germany, Italy, Spain and Turkey do under-perform in the majority of these same indicators. If the economic size of the country was the only driver of FDI, all European countries would get the same share of FDI as their share of the combined GDP of the European countries. Once we control for the size of the country, no clear pattern of FDI across countries appears. This suggests that other national characteristics and FDI policies also influence the location decision of foreign investors.

Europe mostly attracts flows in the service and manufacturing sectors relative to flows in other sectors, with the UK and other North-Western European countries being the main beneficiaries.

Extra-European FDI flows originate from more than 100 countries during the period 2003-2015. However, the US is by far the largest source country with more than the half of the total value of extra-European FDI inflows.

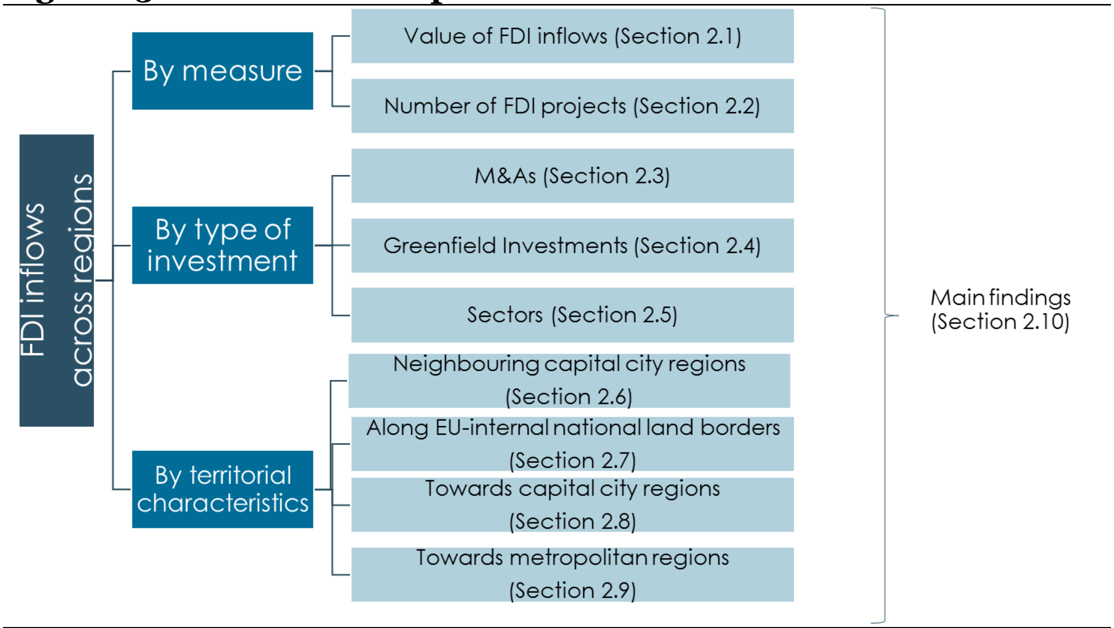
There has not been any significant change in extra-European FDI flows between the period before the crisis (2003-2009) and the following period (2010-2015) when looking at the

European scale. The value of flows remains stable with only a limited decrease, resulting in having 49.7 per cent of the flows of the period between 2010 and 2015. However, differences can be seen at the national level. For instance, a number of countries located in the Balkan, in the Nordic as well as Turkey received more extra-European FDI inflows after than before the crisis.

2 FDI inflows across regions in Europe

In this activity, we will map inward FDI flows at the regional level (NUTS3). We will replicate some of the analyses carried out at the national level (e.g. distribution of regional FDI inflows across sectors, types of FDI inflows and source of FDI inflows) but we will also carry out specific analyses of regional FDI flows to identify regions that have performed better or worse than what would have been expected as illustrated in Figure 13.

Figure 13 Overview of Chapter 2



Source: ESPON FDI (2018) based on the terms of reference for this study

Each section in this chapter includes graphic elements, mostly maps sometimes accompanied by a graph, and a corresponding map description. Most of these descriptions are structured in three main paragraphs:

- Background elements: Give insight on both the indicators and the data used to produce the map.
- Overall description: Analyse the distribution of extra-European FDI inflows across groups of regions and trends before and after the crisis.
- Focus on individual regions with important extra-European FDI inflows: Analyse the regions having the largest share of the distribution of extra-European FDI inflows.

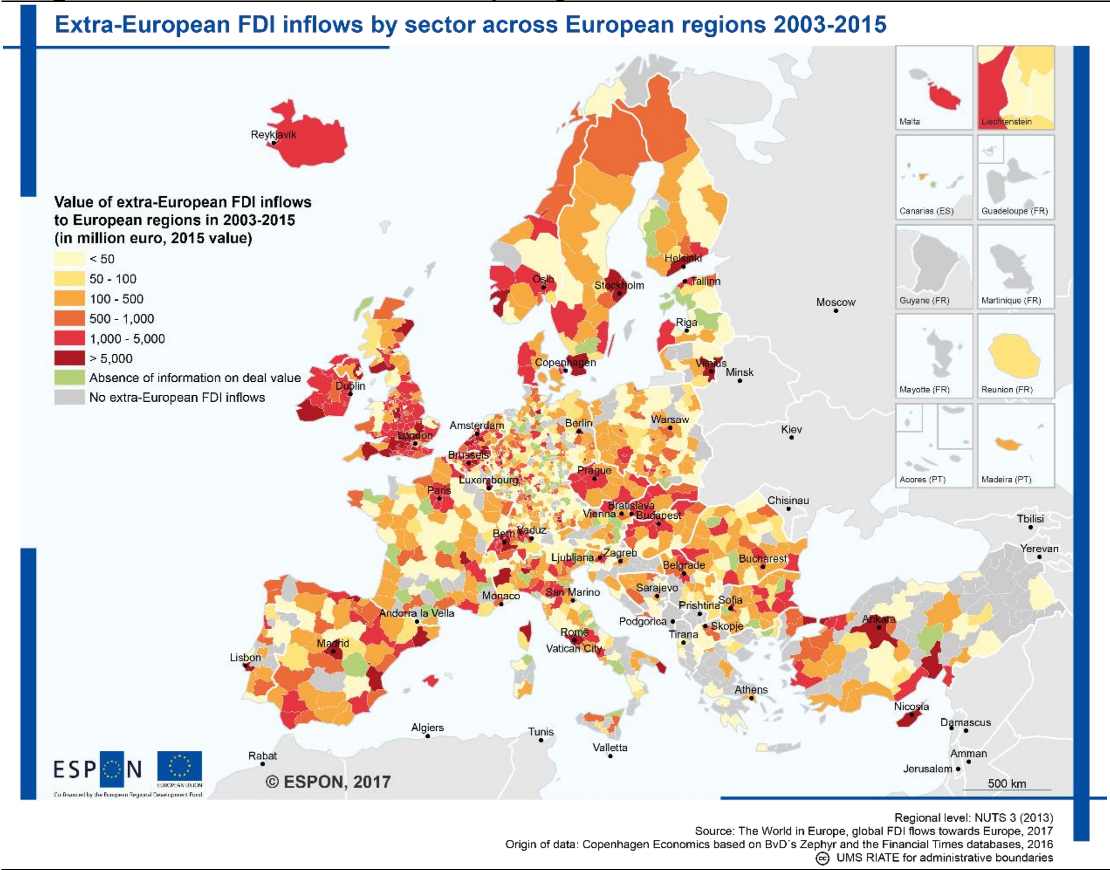
The deal value was not present for all M&A deals. The total deal values reported include all projects for which a deal value was available. This is the case at both the country and regional level.

2.1 Value of FDI inflows across European regions

Background elements:

The map has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for each region included in the dataset and covering the period 2003-2015. The indicator deal value corresponds to the actual value of the investment. It is expressed in EUR mn. in this chapter due to the large figures at regional level.

Map 13 Value of FDI inflows by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

44,373 projects with a deal value recorded between 2003 and 2015 have been mapped at the regional level. Not all have an attached deal value in the dataset. However, the sum of the information on deal value for these projects is about EUR 2,287,000 mn. (2015 value).

Individual regions with high FDI inflows:

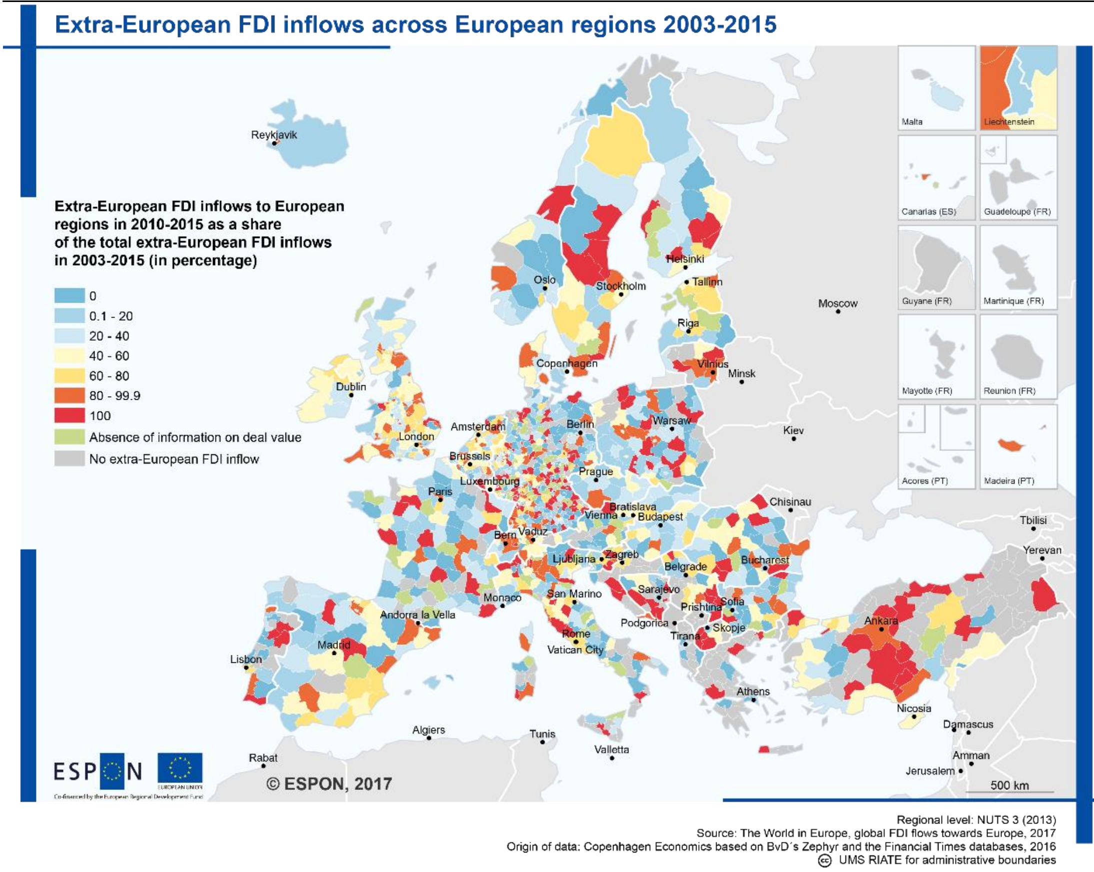
48 NUTS3 regions have accumulated FDI inflows of EUR 10,000 mn. or more in 2003-2015 (Map 13), of which 6 have amounts above 50,000 mn. These 48 NUTS regions are located in 17 different EU countries, including 14 EU Member States of which 13 are old-member States. Cyprus is the only new EU Member State having a NUTS3 region with a FDI stock of EUR 10,000 mn. and more in 2003-2015; three non EU Member States (Switzerland, Norway and Turkey) and 12 countries part of the Eurozone. The large majority of these 48 NUTS3 regions are capital city regions.

The 6 NUTS3 regions with amounts above EUR 50,000 mn. are: Greater Amsterdam (103,791 mn.), Camden & City of London (74,077 mn.), Madrid (54,348 mn.), Hauts-de-Seine (51,983 mn.), Luxembourg (51,647 mn.) and Paris (51,644 mn.).

Map 13 also reveals a number of regions without any data on extra-European FDI inflows. These regions are mostly located in peripheral parts of Europe (e.g. Eastern Turkey and Eastern Poland) as well as parts of the Balkans and Baltic countries.

Map 14 highlights the share of the 2003-2015 extra-European FDI stock at regional level before and after the crisis. The total deal value across regions is almost the same for the two sub-periods 49.7 per cent of the deal value 2003-2015 in 2003-2009 and 50.3 per cent in 2010-2015.

Map 14 Value of FDI inflows before and after the crisis by region, 2003-2015



Note: *No extra-European FDI inflows* means that at least one project has been registered but the deal value is missing

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

171 NUTS3 regions received all of their 2003-2015 extra-European FDI stock during the period 2010-2015. The regions are characterised by a limited number of projects (between 1 and 20) and they can be found in the majority of the European countries. The large majority of these regions are considered as provincial, rural or peripheral within their domestic context such Västernorrland in Sweden, Utena in Lithuania, Botoșani in Romania and Catanzaro in Italy.

Other regions also characterised by the provincial, rural or peripheral location received all their 2003-2015 extra-European FDI stock during the period 2003-2009. It is the case for instance of Troms in Norway, Achaea in Greece and Landes in France. Having the same type of regions receiving either 0 per cent or 100 per cent of their extra-European FDI stock before or after the crisis indicates the volatility of the extra-European FDI inflows to these regions.

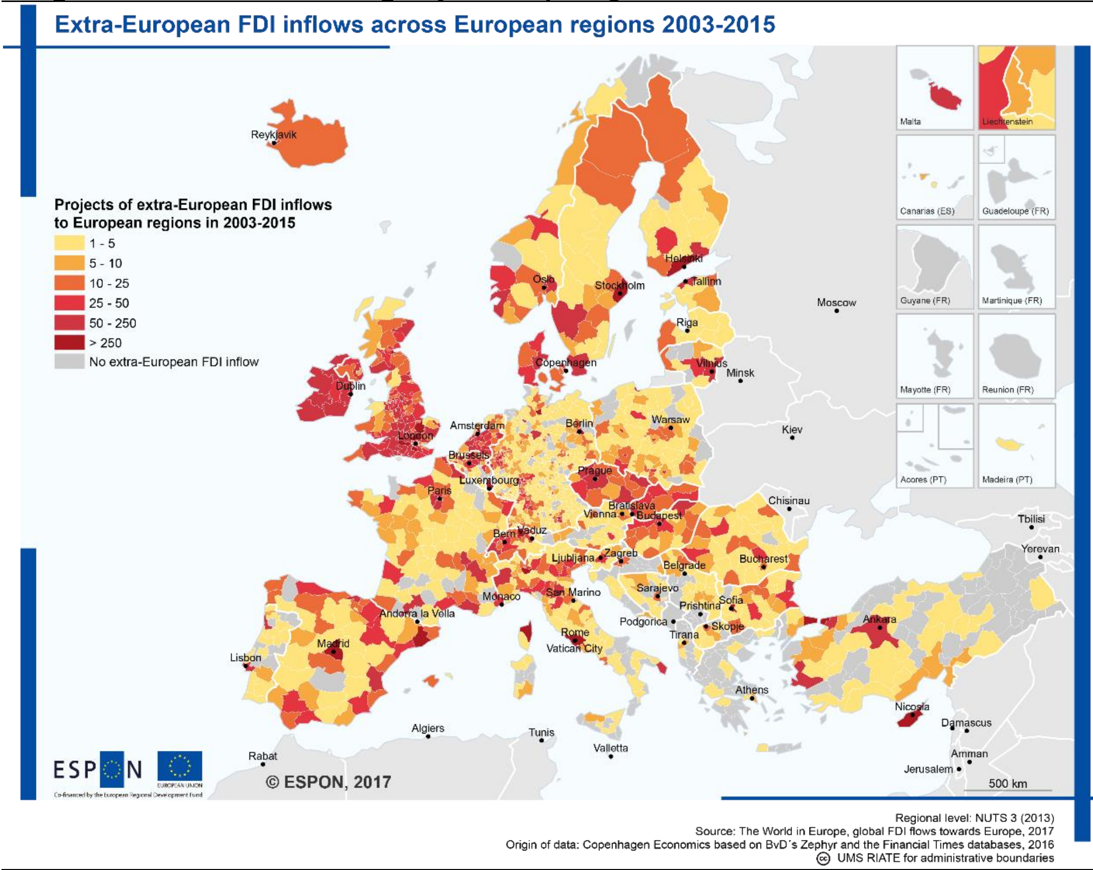
The situation is different for the regions receiving the largest FDI stocks: these regions tend to have a rather balance distribution of the extra-European FDI inflows before and after the economic crisis with usually values between 40 per cent and 65 per cent of the FDI stock 2003-2015 occurring in 2010-2015. The map (Figure 27) reveals this situation in the majority of the capital city and metropolitan regions, such as Helsinki, Istanbul and Dublin. Exceptions exist as for instance the NUTS3 of Vilnius receiving 87 per cent of its FDI stock 2003-2015 in 2010-2015, whereas the NUTS3 of Central Athens only receiving 29 per cent during the same sub-period.

2.2 Number of FDI projects across European regions

<u>Background elements:</u>

The map has been produced using the indicator project count of all the extra-European FDI inflows (both M&As and greenfield investments) for each region included in the dataset and covering the period 2003-2015. The indicator project count corresponds to the actual number of projects. All the extra-European FDI inflows have been registered as project in the database and therefore the total number of projects represents 100 per cent of the investments (see details in the scientific report for Task 1).

Map 15 Number of FDI projects by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

As mentioned earlier in the beginning of this section, a total of 44,373 projects that occurred between 2003 and 2015 have been mapped at the regional level (Map 15).

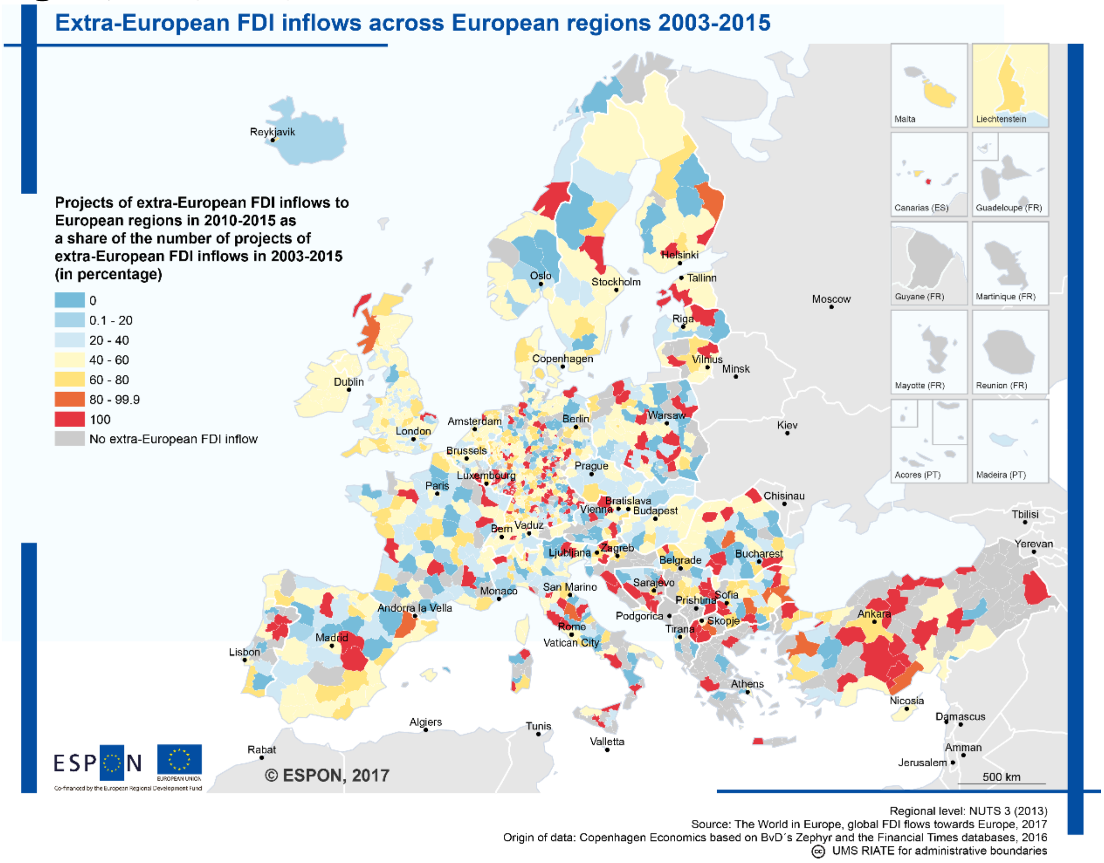
Individual regions with high FDI inflows:

Only four NUTS3 regions have more than 1,000 projects. Three of these regions were part of the seven NUTS3 regions with deal value above EUR 50,000 mn., namely Camden & City of London (1,698 mn.), Paris (1,505 mn.) and Greater Amsterdam (1,249 mn.). The fourth region is the NUTS3 of Westminster (1,405 mn.). These four regions are located in large capital city NUTS regions of old EU Member States.

77 NUTS3 regions have between 100 and 1,000 projects. The majority of these regions are located in capital city regions or metropolitan areas of old EU Member States with a large number located in the United Kingdom, mostly around London.

Map 16 has a number of similarities with Map 14. The former highlights the share of extra-European FDI projects 2003-2015 at regional level before and after the crisis. The total number of projects in 2003-2009 is very close to the one in 2010-2015: 22,192 for the former and 22,181 for the latter.

Map 16 Number of FDI projects before and after the crisis by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

172 NUTS3 regions had all their projects during the period 2010-2015. The regions are characterised by a limited number of projects (between 1 and 20) and they can be found in the majority of the European countries. The large majority of these regions are considered as provincial, rural or peripheral within their domestic context such Vidzeme in Latvia, Nord-Trøndelag in Norway as well as a number of regions in Turkey. Other regions also characterised by the provincial, rural or peripheral location had all their projects during the period 2003-2009. It is the case for instance of Sassari in Italy and Olsztyński in Poland. Having the same type of regions receiving either 0 per cent or 100 per cent of their extra-European FDI stock before or after the crisis indicates the volatility of the extra-European FDI inflows to these regions.

The situation is different for the regions receiving the largest FDI stocks. These regions tend to have a rather balanced distribution of projects before and after the economic crisis with 40 per cent and 65 per cent of the number of projects in 2003-2015 occurring in 2010-2015. The map (Figure 29) reveals this situation in the majority of the capital city and metropolitan regions, such as Copenhagen, Lisbon and Barcelona. Exceptions exist as for instance the NUTS3 of Central Athens with 28 per cent of the projects in 2010-2015. Similar situation in Budapest with 33 per cent.

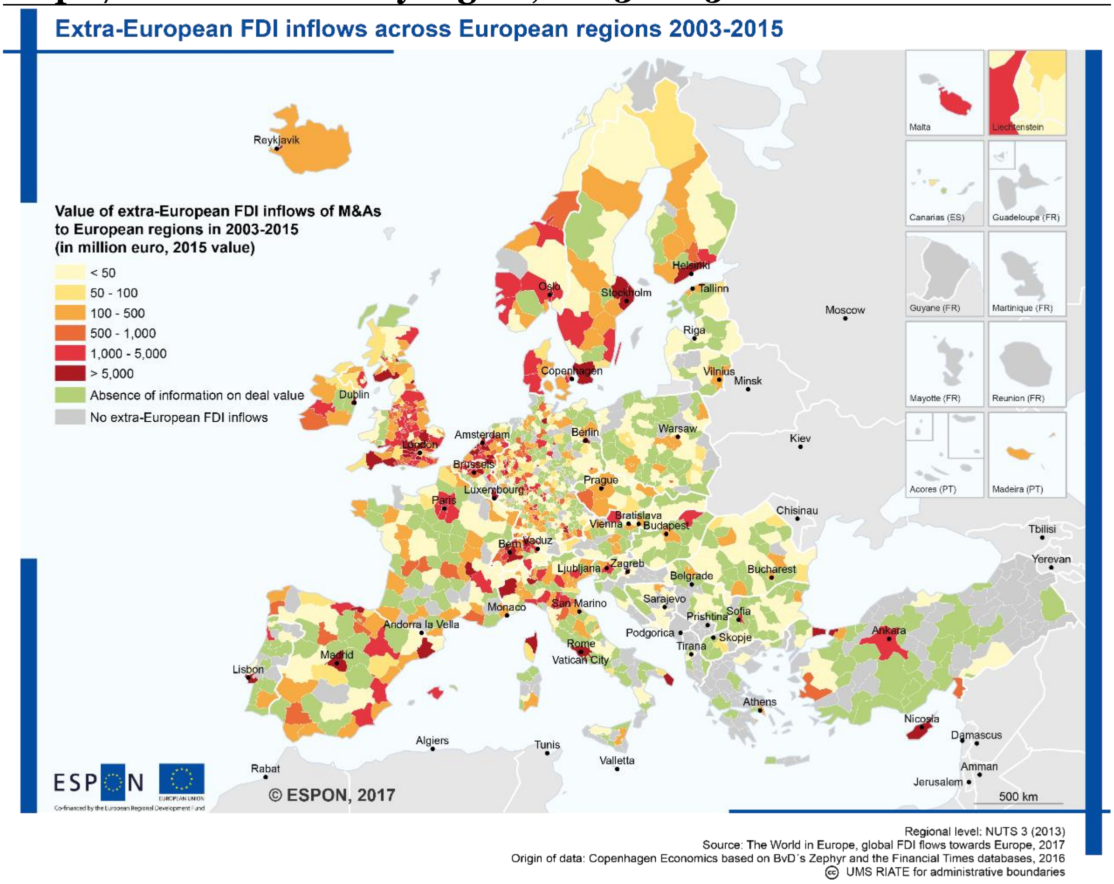
2.3 FDI inflows by type of investment: M&As

Background elements:

Mature markets generally have a larger stock of companies that are attractive to foreign investors and these countries will therefore tend to get more FDI through M&As. Likewise, greenfield investments tend to take place in emerging economies with expanding markets or in countries with abundance of important resources. We therefore illustrate the total deal value of M&As extra-European FDI inflows as M&As across regions.

M&As take place when a foreign company acquires more than 10 per cent of the voting stock in a domestic company. M&As may help sustain existing economic activity in the economy, but this type of FDI does not expand the capital stock in the economy.

Map 17 Value of M&As by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

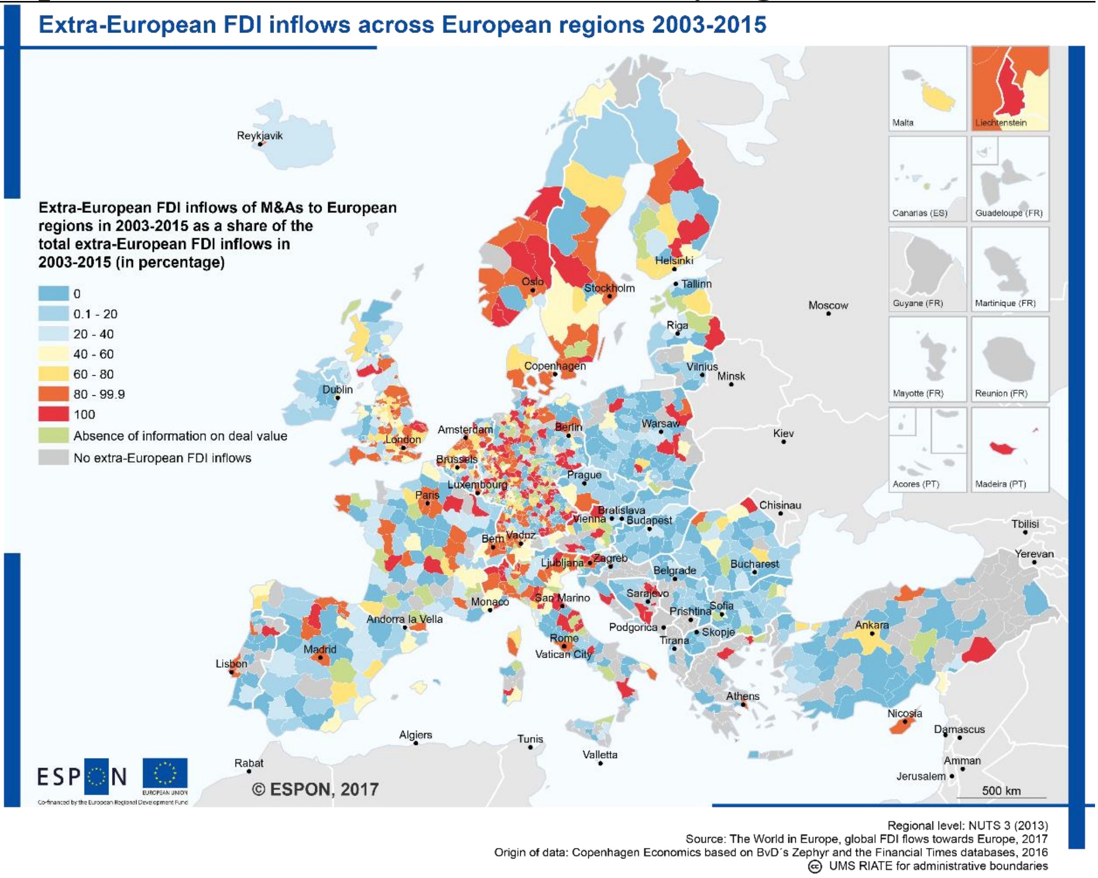
Map 17 reveals the location of M&A of extra-European FDI inflows across European region for the period 2003-2015. In general, the observations from Map 17 are very similar to the ones from Map 13 and Map 15.

Individual regions with high FDI inflows:

The top5 regions are the same as on figure 25 with the NUTS3 regions of Greater Amsterdam (92,010 mn. EUR), Camden & City of London (68,644 mn.), Hauts-de-Seine (51,501 mn.), Luxembourg (49,736 mn.) and Madrid (46,912 mn.).

Map 18 reveals M&As as a share of the total of extra-European FDI inflows across European NUTS3 region for the periods 2003-2015. It highlights that many regions do get none or only a limited percentage of extra-European FDI inflows through M&As. This is particularly the case in peripheral regions.

Map 18 M&A as share of total FDI inflows by region, 2003-2015



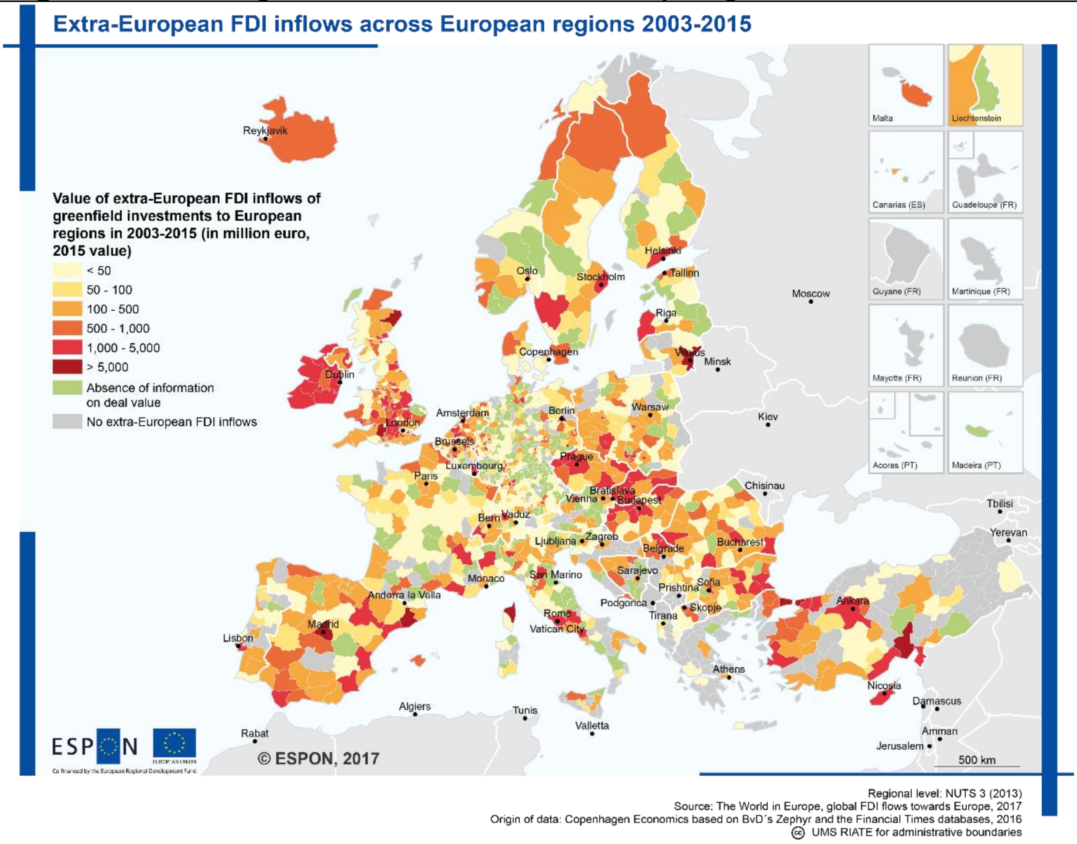
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

2.4 FDI inflows by type of investment: Greenfield investments

Background elements:

Greenfield investments tend to take place in emerging economies with expanding markets or in countries with abundance of important resources. The map on greenfield investments most probably highlights a different ranking of European countries when it comes to attract this kind of FDI in comparison to M&As.

Map 19 Value of greenfield investments by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

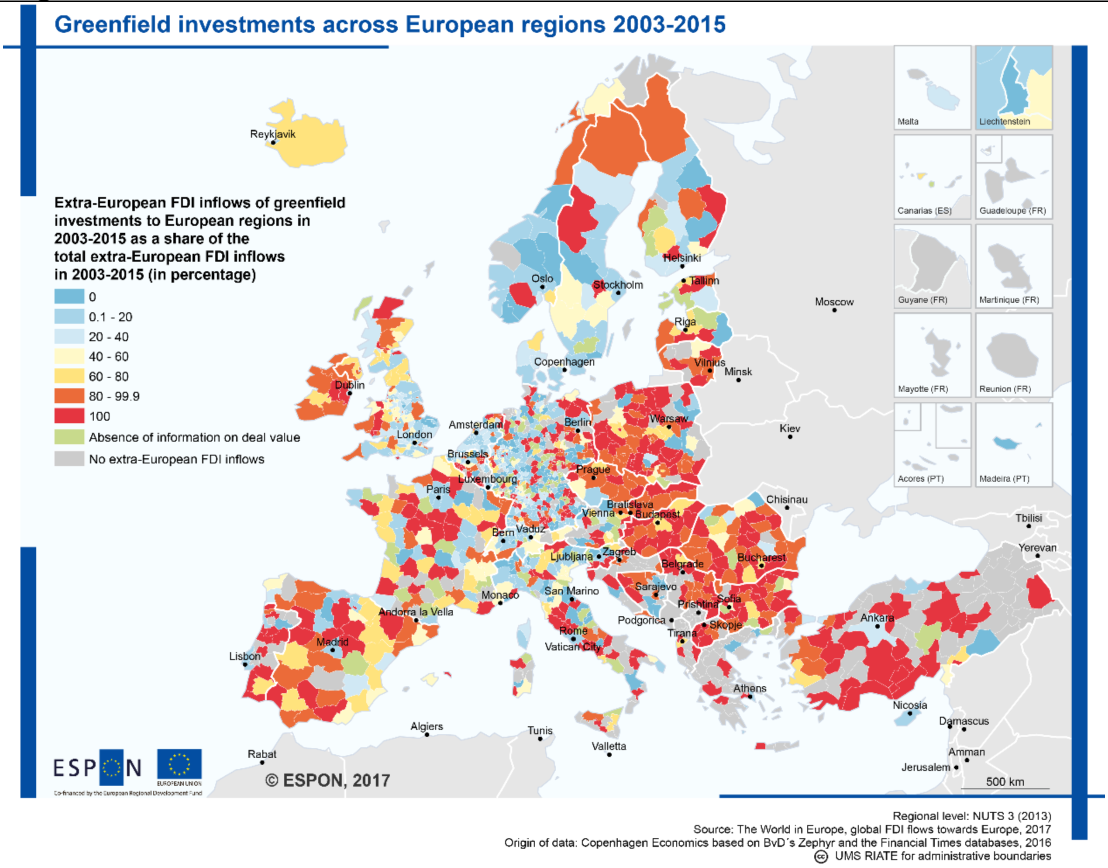
Map 19 reveals the location of greenfield investments of extra-European FDI inflows across European regions for the period 2003-2015. It highlights that capital city regions attract large values of greenfield investments but also highlights that other parts of Europe do attract large values of greenfield investments too. The latter can be found in provincial regions of Eastern Europe as well as parts of Ireland, among others. For a number of NUTS3 regions, no projects have been recorded in the databases at all, e.g. Northern Greece.

Focus on individual city regions with important extra-European FDI inflows:

The top5 regions are the NUTS3 regions of Dublin (15,889 mn. EUR), the Greater Amsterdam (11,782 mn.), Paris (10,772 mn.), Barcelona (10,134 mn.) and Adana (9,787 mn.).

Map 20 reveals greenfield investments as a share of the total of extra-European FDI inflows across European NUTS3 region for the periods 2003-2015. It highlights the opposite of Map 19, i.e. that many peripherally located European regions do get the large majority of its extra-European FDI inflows through greenfield investments. One reason could be lower land costs.

Map 20 Greenfield investments as share of total FDI inflows by region, 2003-2015



Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

2.5 FDI inflows by sector

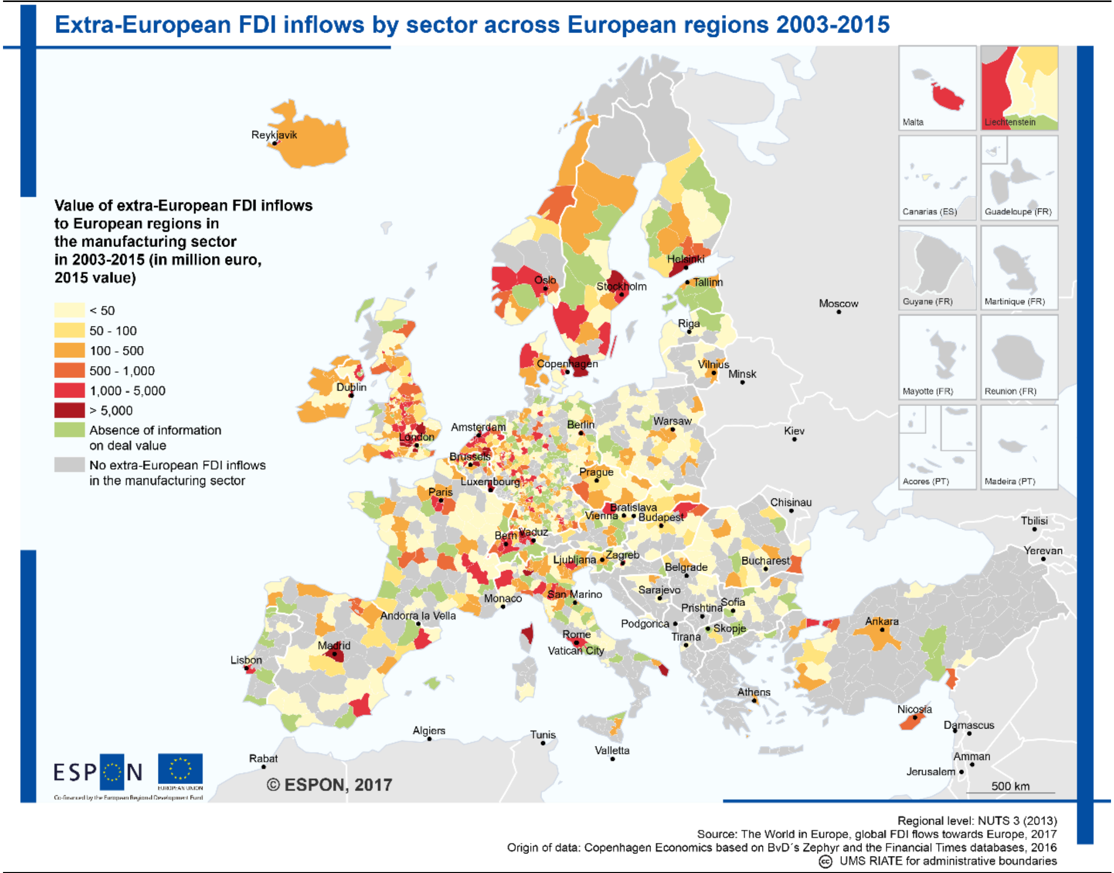
An analysis of the data on M&A and greenfield investments highlights small differences in the classification of sectors in these two datasets. Some of the categories are present in both datasets, thus allowing mapping them. The section presents maps of one sectors, manufacturing, and two sub-sectors: ICT (Information and Communication Technology) and financial services. The selection of these sectors and sub-sectors is based on both the quality of the data and the importance of these three selections in terms of both deal value and number of projects.

Map 21 reveals the location of deal value of extra-European FDI inflows in the manufacturing sector for the period 2003-2015 across regions (NUTS3) in Europe.

The top10 regions are all located in capital city regions or metropolitan regions of old EU member States and Switzerland. Their deal value for the period 2003-2015 is between EUR 11,000 mn. and EUR 33,000 mn. The latter being the NUTS3 region of the Greater Amsterdam.

Map 21 highlights a number of peripheral and rural regions having no extra-European FDI inflows in the manufacturing sector. For instance in several peripheral regions in southern Europe as in Portugal, Greece and Turkey.

Map 21 FDI inflows in the manufacturing sector by region, 2003-2015



Note: M&As sector definition follows 2-digit NACE codes: 10-33 are classified as manufacturing, 45-96 are classified as services, while 01-09 and 35-43 are other categories, including agriculture and mining. The greenfield projects are not classified following the NACE nomenclature. Hence, for the greenfield definition, we have classified the projects to follow the M&A sector classification as closely as possible.

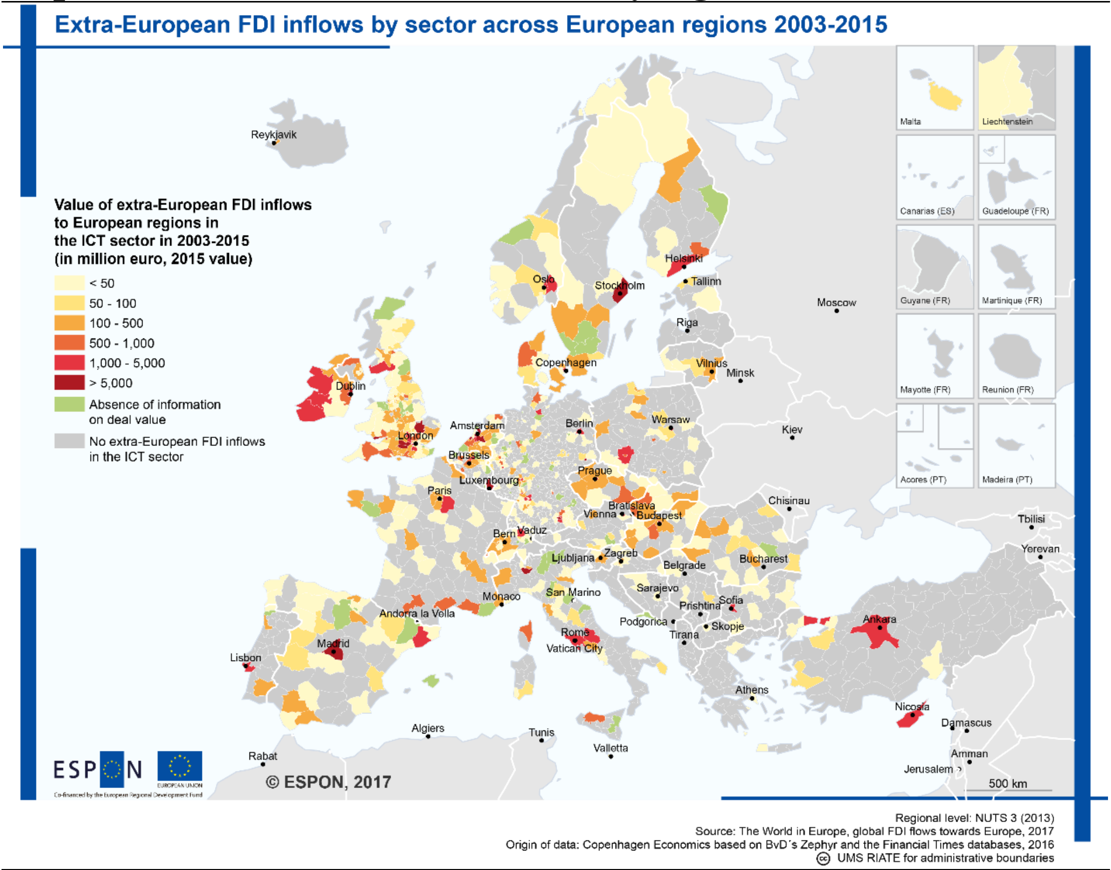
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Map 22 reveals the location of deal value of extra-European FDI inflows in the ICT sector for the period 2003-2015 across regions (NUTS3) in Europe.

The top10 regions are all located in capital city regions or metropolitan regions of old EU-member State. Their deal value for the period 2003-2015 is between EUR 8,000 mn. and EUR 18,000 mn. The latter being the NUTS3 region of the Greater Amsterdam, the same NUTS3 region with the highest deal value in the manufacturing sector, closely followed by the NUTS3 region of Luxembourg.

The comparison of figures 34 and 35 highlights the higher concentration of extra-European FDI inflows in the ICT sector than in the manufacturing sector. The number of NUTS3 regions without any extra-European FDI inflows in the ICT sector is indeed higher, as for most of the NUTS3 regions in Greece, Latvia, France and Poland, among others.

Map 22 FDI inflows in the ICT sector by region, 2003-2015



Note: M&As category definition: *Information and communication* (NACE codes: 58-63). For greenfield projects, the projects labelled by the sector category *ICT & Electronics* have been included.

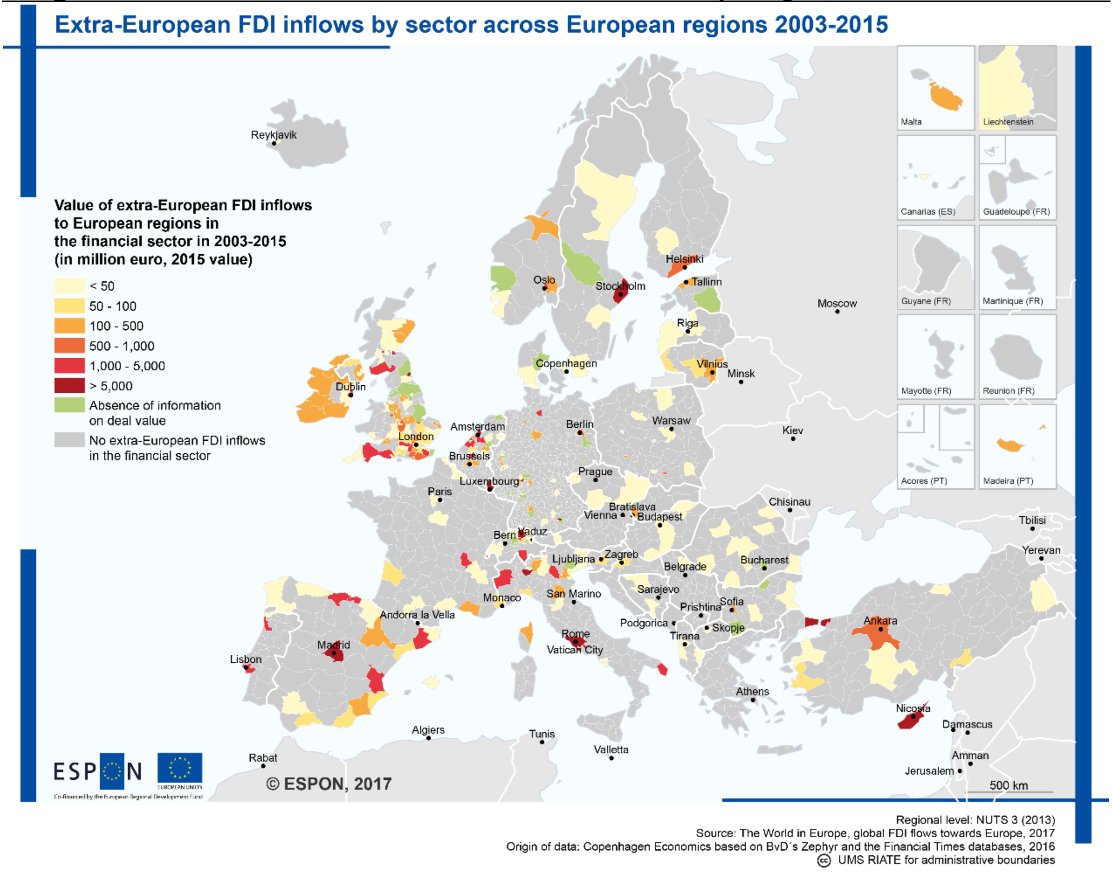
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Map 23 reveals the location of deal value of extra-European FDI inflows in the financial sector for the period 2003-2015 across regions (NUTS3) in Europe.

The top10 regions are all located in capital city regions or metropolitan regions of a variety of countries: old and new EU-member States as well as non EU-member States (Switzerland, Turkey). Six out of the 10 NUTS3 regions are located outside the Eurozone. Their deal value for the period 2003-2015 is between EUR 6,600 mn. and EUR 23,800 mn. The latter being the NUTS3 region of the Camden & City of London, followed by the NUTS3 region of Zurich and the NUTS3 region of Istanbul.

The comparison of Figure 35 and 36 highlights an even more concentration of extra-European FDI inflows in the financial sector than in the ICT sector. The majority of the NUTS3 regions on the map are indeed displaying the absence of extra-European FDI inflows in the financial sector. Exceptions are found in the United Kingdom, Ireland and small countries such as Luxembourg and Cyprus.

Map 23 FDI inflows in the financial sector by region, 2003-2015



Note: M&As category definition: *Finance and insurance activities* (NACE codes: 64-66). For greenfield projects, the projects labelled by the sector category *Financial Services* have been included.

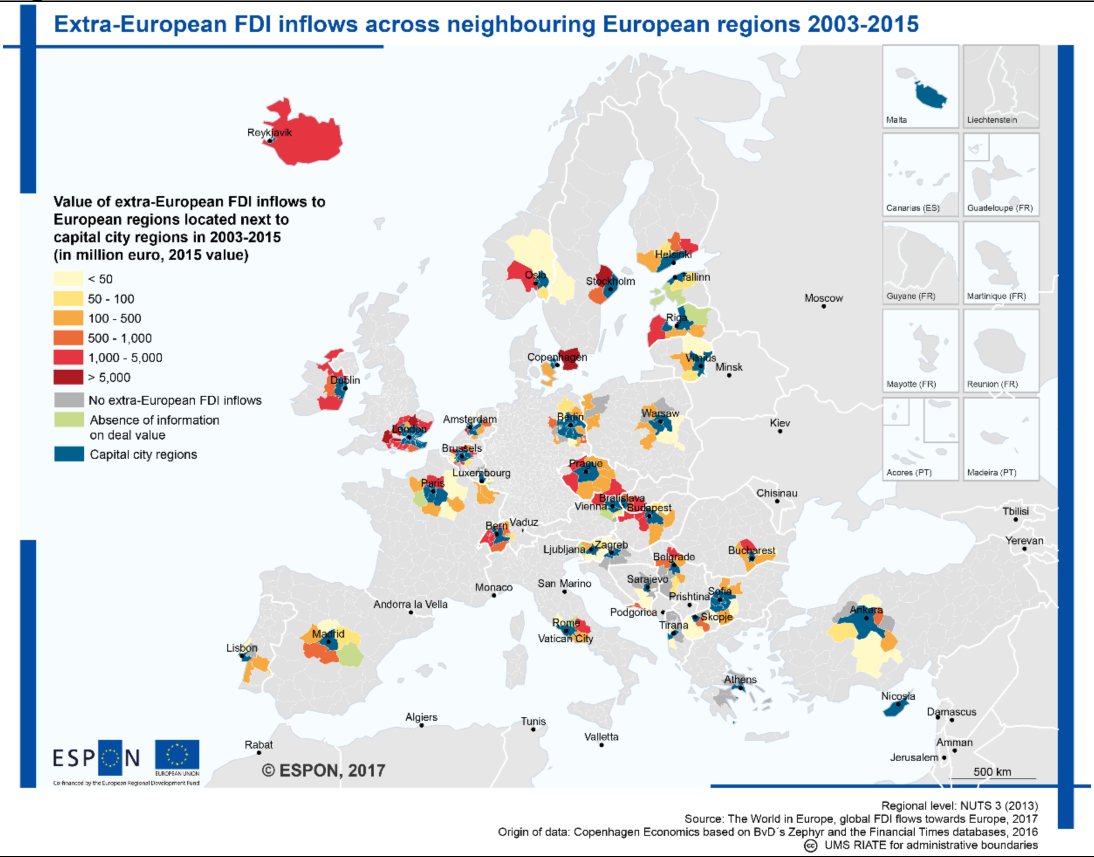
Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

2.6 Neighbourhood impact on FDI inflows towards European regions: neighbouring capital city regions

Background elements:

The map has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for regions (NUTS3) located right next to the capital city regions.

Map 24 Neighbourhood impact of FDI inflows towards European regions, 2003-2015



Note: The capital city region of Liechtenstein is not included.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

A total of 200 NUTS3 regions are located in the immediate periphery of capital city regions across Europe. 168 of these NUTS3 regions received extra-European FDI inflows during the period 2003-2015, including 156 with information on deal value (Figure 37).

The total deal value of the regions located next to capital city regions amount to EUR 170,688 mn. in 2003-2015, of which 54.1 per cent took place between 2010 and 2015. It corresponds to 6.6 per cent of the total value of extra-European FDI inflows towards Europe. A bit more than half of the projects in these regions correspond to M&As (54.1 per cent). There were 3,578 projects, corresponding to 9.4 per cent of all projects.

Focus on individual city regions with important extra-European FDI inflows:

Three NUTS3 regions have value beyond EUR 10,000 mn. in 2003-2015. The regions are Cambridgeshire (17,460 mn. EUR), Skåne (11,640 mn.) and Antwerpen (11,465 mn.). Data on the type of investments indicate the very clear dominance of M&As in these top regions, where two of them have values above EUR 10,000 mn.: Cambridgeshire with EUR 15,604 mn. corresponding to 89,5 per cent of the total extra-European FDI inflows during 2003-2015; and

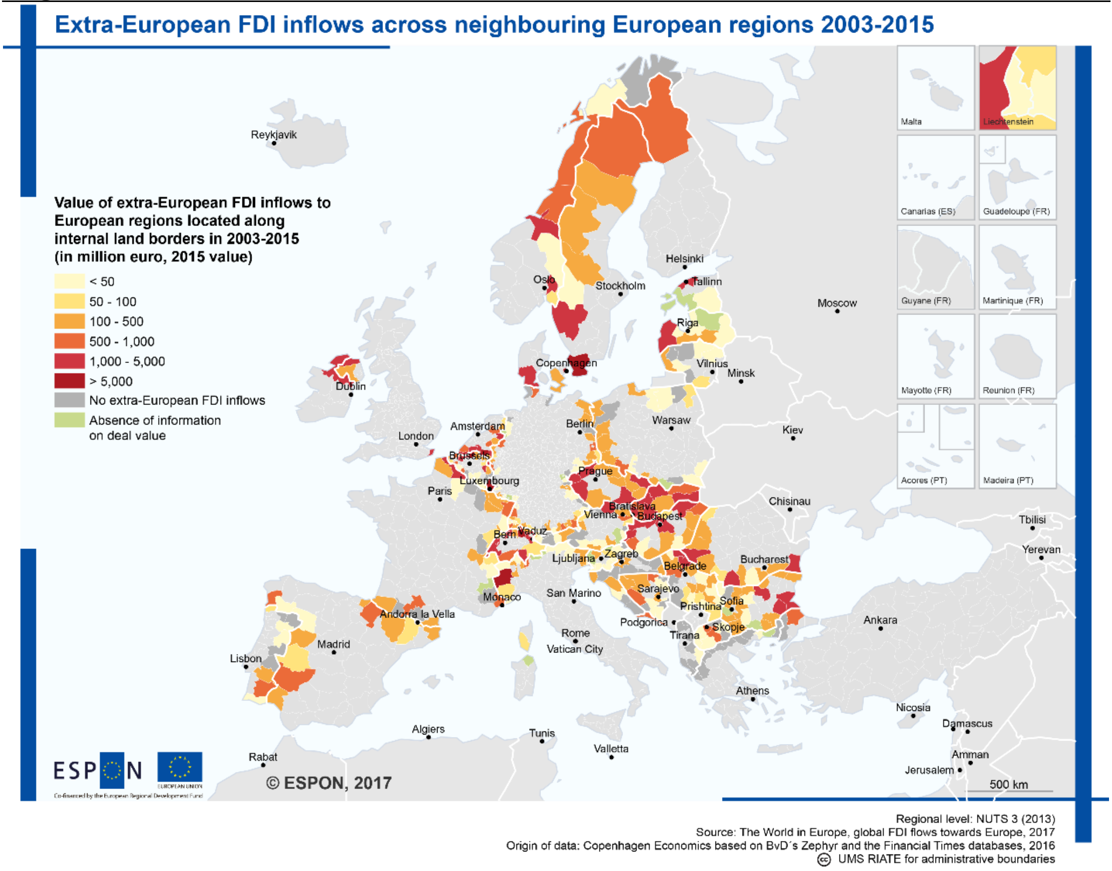
Skåne with EUR 11,095 mn. corresponding to 95,3 per cent of the total extra-European FDI inflows towards the region during that period.

2.7 Neighbourhood impact of FDI inflows towards European regions: along EU-internal national land borders

Background elements:

The map has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for regions (NUTS3) located along EU-internal national land borders.

Map 25 Neighbourhood impact on FDI inflows towards European regions, 2003-2015



Note: Regions included: all internal national land borders in Europe as well as along fixed link (i.e. bridge) or with a ferry link with good frequencies and travel times below 2 hours. Note that some of these NUTS3 regions correspond to countries, e.g. Luxembourg and Cyprus.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

A total of 385 NUTS3 regions are located along internal national land borders in Europe. 314 of these NUTS3 regions received extra-European FDI inflows during the period 2003-2015, including 298 with information on deal value (Figure 38).

The total deal value of the regions located along internal national land borders in Europe amount to EUR 360,434 mn. in 2003-2015, of which 54.6 per cent took place between 2010 and 2015. It corresponds to 13.9 per cent of the total value of extra-European FDI inflows towards Europe. A bit more than two thirds of the projects in these regions correspond to M&As (69.1 per cent). There were 6,361 projects, corresponding to 16.7 per cent of all projects.

Focus on individual city regions with important extra-European FDI inflows:

Six NUTS3 regions have value beyond EUR 10,000 mn. in 2003-2015. The regions are Luxembourg (51,646 mn. EUR), Zürich (48,443 mn.), Zuidoost-Noord-Brabant (25,610 mn.), Skåne (11,640 mn.), Antwerpen (11,465 mn.) and Torino (11,382 mn.). Data on the type of investments indicate the very clear dominance of M&As in these top regions, where five of them have values above 10,000 mn. EUR: Luxembourg with EUR 49,736 mn. corresponding to 96,3 per cent of the total extra-European FDI inflows during 2003-2015; Zürich with 45,632 (94.2 per cent), Zuidoost-Noord-Brabant with 25,096 (98 per cent) and Skåne with 11,095 (95.3 per cent).

2.8 FDI inflows towards European capital city regions

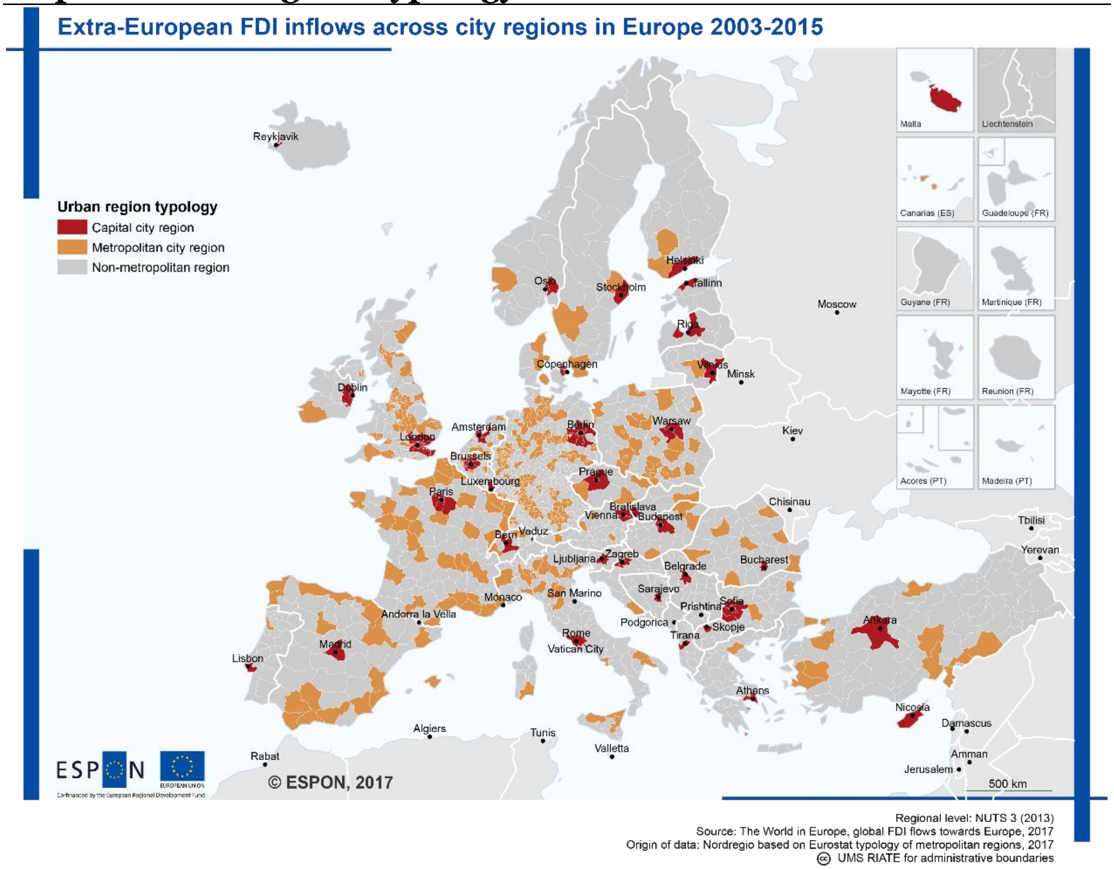
Analysing trends in inward FDI flows across cities requires defining what is meant by a “city”. A number of definitions and typologies exist. Focusing on capital city regions and metropolitan regions is of high relevance in this activity. The definition of capital city region is rather straightforward but their geographical demarcation is not. Cities often correspond to urban morphological zones or functional urban areas rather than simply the municipal border of the capital city. In this exercise, the ESPON typology on metropolitan areas has been used. The capital city regions thus correspond to the large majority the category “metropolitan capital” of the ESPON typology, as well as a couple of European capital not having any metropolitan character. The metropolitan regions correspond to the ones of the ESPON typology. The latter has been used to add metropolitan regions of the countries included in this study that are not included in the ESPON typology (e.g. Turkey). The map on urban region typology (Figure 39) illustrates both the capital city regions and the metropolitan regions across Europe.

The mapping of inward FDI flows at the city region level will contribute to highlight:

- *Differences in the concentration of FDI inflows in the cities*: By comparing the share of FDI, which goes to the capital city regions relative to metropolitan regions, will give us valuable information about the significance of the capital cities in attracting FDI. We can use this information in Task 3, where we assess the impact of FDI on regional development and coherence.
- *Differences in the inflow of different types of FDI*: There may be differences in the relative attractiveness of capital city regions and the metropolitan regions for greenfield and M&A investors. Capital cities may offer a larger pool of companies, which are attractive for M&A investors, whereas second tier cities may offer better conditions for greenfield investors (e.g. lower prices of real estate and land). We will use this knowledge in Task 5 where we draw conclusions and provide targeted recommendations, e.g. in terms of FDI promotion strategies for capital cities vs. metropolitan regions.

It should be kept in mind that FDI inflows in general tend to be quite lumpy and vary a lot over time. This will particularly be the case once we analyse trends in inward FDI flows at the more disaggregate level. We would therefore not expect that an analysis of FDI flows over time would convey much valuable information. An exception by be FDI inflows to the capital cities because these flows tend to be more stable.

Map 26 Urban regions typology



Note: The ESPON typology does not include all the NUTS3 regions part of this study. The typology has been adapted to include Albania, Iceland, the former Yugoslav Republic of Macedonia, Montenegro, Bosnia & Herzegovina, Serbia and Turkey. The capital city regions and the metropolitan regions correspond to a single or an aggregation of NUTS3 regions.

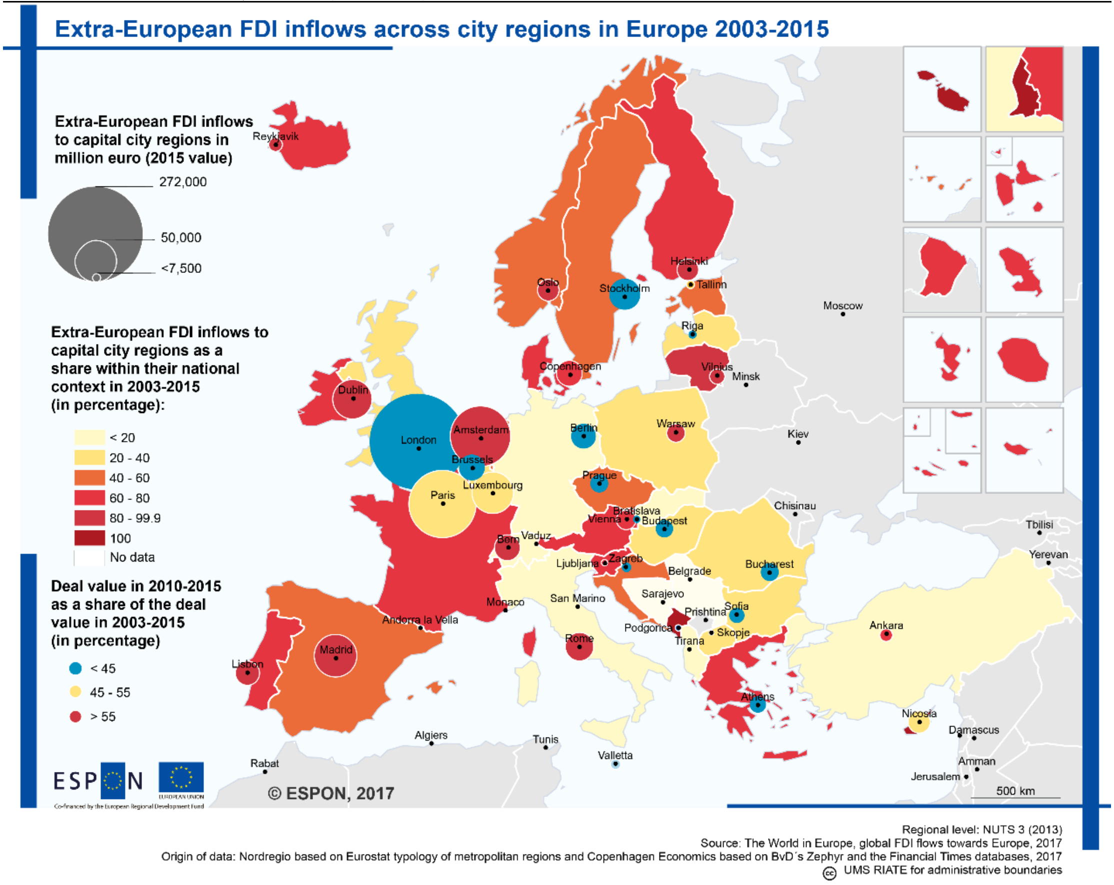
Source: ESPON FDI (2018) based on ESPON Urban typology

Signalling and agglomeration effects are likely to lead to a concentration of FDI in the capital city regions, measured in terms of volume of FDI projects. Differences across capital city regions in extra-European FDI inflows and their sectoral composition will give us valuable information about differences in local attraction factors that can be used in Task 3.

Background elements:

The map (Figure 40) has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for each capital city region included in the dataset and covering the period 2003-2015.

Map 27 FDI inflows across European capital city regions before and after the crisis, 2003-2015



Note: The ESPON typology does not include all the NUTS3 regions part of this study. The typology has been adapted to include Albania, Iceland, the former Yugoslav Republic of Macedonia, Montenegro, Bosnia & Herzegovina, Serbia and Turkey. The capital city regions correspond to a single or an aggregation of NUTS3 regions.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The 35 capital city regions in Europe included in the database attracted more than EUR 963,620 mn. of extra-European FDI inflows during the period 2003-2015. It accounts for 37 per cent of the total of extra-European FDI inflows towards Europe. The largest flows are found in the capital city regions of old EU member states (Figure 40).

Data on time trends reveal an increase of flow towards capital city regions over the selected period. The share of the flows after the crisis were higher than before the crisis, with 52 per cent of the total deal value for the period 2003-2015 occurred between 2010 and 2015. This increase occurred in the large majority of the capital city regions of the old-member states, with the exception of London (44 per cent in 2010-2015), Stockholm (44 per cent), Brussels (41 per cent), Berlin (35 per cent) and Athens (27 per cent), whereas both Paris (49 per cent) and Luxembourg (54 per cent) had relatively stable values over time.

Focus on individual city regions with important extra-European FDI inflows:

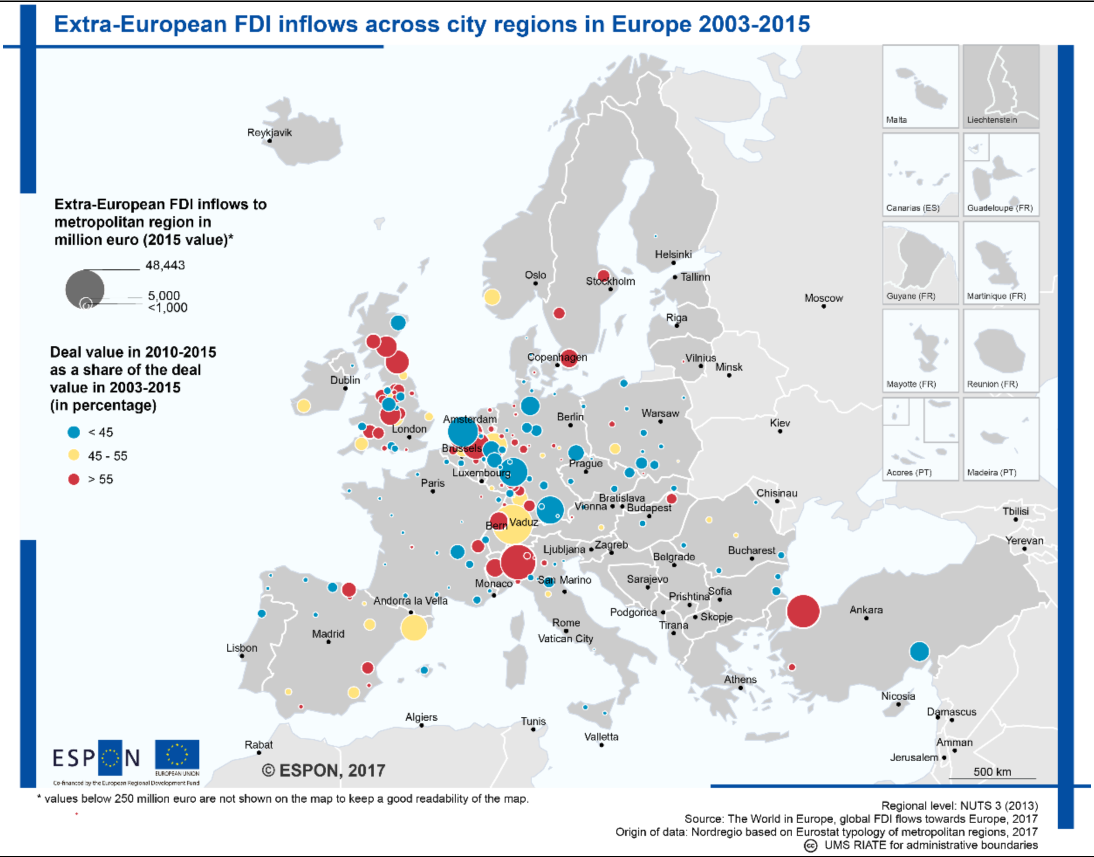
The largest amount of flows is concentrated in a limited number of capital city regions. More than 53 per cent of the flows are indeed concentrated in three of them: London (28 per cent), Paris (14 per cent) and Amsterdam (11 per cent). London with its EUR 272,000 mn. of inflows attracts more flows than the 28 capital city regions in Europe that attract the smallest flows. Over time, data indicate three different evolutions for these three capital city regions: values decreased for London, remained stable for Paris and increased for Amsterdam. This is in line with the findings from the E&Y (2015) investor survey from 2015 where London, Paris and Berlin appears to be the three most attractive cities in Europe. London is found to be attractive due to its international business culture, reputation of local companies or personalities and local labour skills. Paris' main attraction factors are its international business culture, its infrastructure programs and the quality of the Parisian universities. Foreign investors increasingly recognise Berlin's brand as a technology and lifestyle destination, but these investors are also attracted by the international business culture, reputation of local companies or personalities and the hosting of international events.

2.9 FDI inflows towards metropolitan city regions in Europe

Background elements:

The map (Map 28) has been produced using the indicator deal value of all the extra-European FDI inflows (both M&As and greenfield investments) for each metropolitan region included in the dataset and covering the period 2003-2015.

Map 28 FDI inflows across European metropolitan regions, 2003-2015



Note: The ESPON typology does not include all the NUTS3 regions part of this study. The typology has been adapted to include Albania, Iceland, The former Yugoslav Republic of Macedonia, Montenegro, Bosnia & Herzegovina, Serbia and Turkey. The metropolitan regions correspond to a single or an aggregation of NUTS3 regions.

Source: ESPON FDI (2018) based on BvD´s Zephyr and the Financial Times databases

Overall description:

The 245 metropolitan regions in Europe attracted more than EUR 833,624 mn. of extra-European FDI inflows during the period 2003-2015, which are EUR 130,000 mn. less than what the capital city regions attracted in the same period. It accounts for 32 per cent of the total of extra-European FDI inflows towards Europe. The largest flows are found in the metropolitan regions of three old-member states: Germany, United Kingdom and the Netherlands), as seen on Figure 41. The metropolitan regions of these three countries account for more than 55 per cent of the total extra-European FDI inflows to metropolitan regions in Europe in 2003-2015.

Data on over time trends reveals an increase of flow towards metropolitan regions over the selected period. .The share of the flows after the crisis were higher than before the crisis, with 52 per cent of the total deal value for the period 2003-2015 occurred between 2010 and 2015. It is the same figure as for the capital city regions. This increase mostly occurred in metropolitan regions located in old-member states, as well as in Turkey.

Focus on individual city regions with important extra-European FDI inflows:

The concentration of FDI is the metropolitan regions is not as important as in capital city regions where 3 capital city regions attract more 53 per cent of the total flows of the capital city regions in Europe. In the case of the metropolitan regions, half of the flows (51 per cent) is distributed in 19 different metropolitan regions located in eight countries, six are old-member states Switzerland and Turkey. Three countries have four metropolitan regions part of this top19: Germany, the Netherlands and the United Kingdom.

The metropolitan regions that attracted the most extra-European FDI inflows are Zürich (48,443 mn. EUR; 5.8 per cent of the total of inflows to metropolitan regions), Milano (41,735 mn.; 5.0 per cent) and Istanbul (37,306 per cent; 4.5 per cent). Over time, Zürich remained stable in attracting extra-European FDI inflows (50 per cent), whilst both Milano (57 per cent) and Istanbul (60 per cent) increased their share after the crisis.

2.10 Main findings

The findings show different degrees of regional concentration depending on the sector: from the most to the less concentrated sector: The financial sector, ICT sector and manufacturing sector.

The analysis of extra-European FDI inflows across regions in Europe brings new insight on its distribution. Large regions in terms of demography and economy that are located in economically mature countries attracted more FDI, such capital city regions of countries located in the North-Western part of Europe, e.g. Amsterdam, London, Madrid and Paris.

The maps in this section also highlight that a number of regions that do not receive any extra-European FDI flows at all between 2003 and 2015. They mainly correspond to peripheral regions within large country and sparsely populated regions, such as in Northern Greece, Eastern Turkey or Eastern Croatia, among others.

The distribution of M&As across Europe regions tends to be more concentrated in capital city regions in North-West Europe than for greenfield investments. The latter is also important in that part of Europe but not only: peripheral regions of Eastern Europe do attract large amount of greenfield investments too.

Sector specific maps highlight different degrees of concentration depending on the sector: from the most to the less concentrated: financial sector, ICT sector and manufacturing sector. Findings on the maps illustrate that regions located near capital city regions tend to attract more extra-European FDI flows than regions located along a national inland border. The value of flows remains relatively stable for the regions received the largest amount of flows, such as capital city regions, with a couple of exceptions (i.e. important increase for Vilnius and important decrease for Athens). The most important over time change occurred in peripheral and more rural European regions, partially explained by the limited number of projects.

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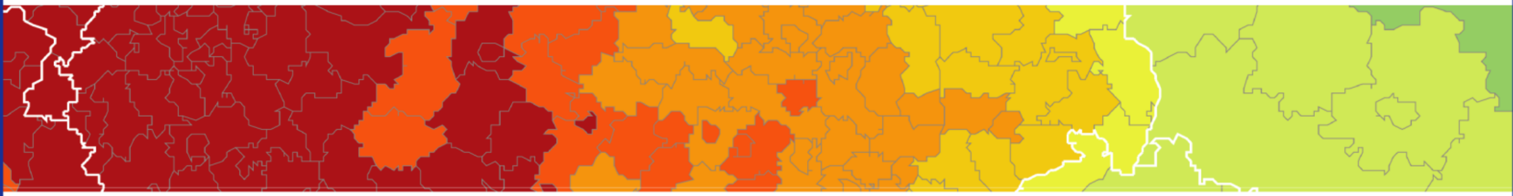

ESPON 2020 – More information

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