Navigating through turbulence

EY UK Attractiveness Survey

UK including Scotland spotlight

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EY's 2023 UK Attractiveness Survey

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We are delighted to introduce EY's 2023 UK Attractiveness Survey, our latest annual research report examining the performance and perceptions of the UK as a destination for foreign direct investment (FDI).

An indispensable reference point

EY has now been publishing this study for over two decades. During that time, it has become an indispensable reference point for business leaders, investors, and policymakers seeking to understand the drivers of inward investment and the UK's relative performance in an ever-changing landscape. If anything, the importance of this report has increased even further amid the unexpected and often dramatic events of recent years, from the pandemic to the war in Ukraine and more. While these disruptions have prompted overseas investors to adapt their strategies and priorities, our research confirms that the keys to attracting FDI remain the same: skills, infrastructure, incentives, and support.

In previous years we have published two separate reports — one looking at project flows and perceptions for the UK overall, and one focused specifically on Scotland. For the first time this year, we've combined the findings into a single report, enabling us to provide a more consistent and integrated view across the UK. You'll find an overview of Scotland's FDI performance from Ally Scott, Managing Partner of EY in Scotland, on page 50. The report also contains call-out sections on the Scottish results and their implications.

A challenging year on project numbers …

First, the headline findings. Total FDI projects into the UK fell by 6.4% in 2022 to 929, putting it second behind France, which attracted 1,259 projects. With total European projects edging up by 1.4%, the UK's market share in Europe also declined. Meanwhile, our 2023 investor survey shows the UK slipping to third place in Europe for perceived attractiveness behind Germany and France.

… in a volatile environment …

The UK's performance should be seen in the context of the difficult economic and political headwinds it faced — the war in Ukraine and its corresponding impact on energy prices escalated inflationary pressures and led to a general economic slowdown across the globe and particularly in Europe. The UK also faced its own political challenges during 2022, and there's no question that Brexit has reduced the UK's relative attractiveness for some investors.

… but grounds for optimism when it comes to value of investment …

However, a closer look reveals a more positive picture. While the UK's project count was down in 2022, it performed better on value than its competitors comping first in terms of announced jobs reflecting a shift in policy focus by the Government and other investment agencies towards attracting higher-value projects rather than focusing on volume. And in our investor survey, longer-term perceptions of the UK's attractiveness have held firm — with an unprecedented 65% say they're planning on making an investment in the UK in 2023 — the highest proportion on record.

… and many areas of strength shining through

Added to this, many major points of strength for the UK shine through in the project statistics on sectors and activities, with the UK retaining number one spot for digital tech and financial services investment, and also performing well in life sciences. From a functional perspective the shift to value is evident — the UK continuing to lead in attracting HQs, and increasing the number of R&D and manufacturing investments.

From a regional perspective — while there was a decline in the number of projects into London, the regional performance was better, with volumes holding firm or increasing, suggesting that levelling up in FDI is becoming more of a reality.

Building on the UK's proven assets …

Perceptions of the UK remain high on fundamentals such as its quality of life and legal system, bolstering its attractiveness as a headquarters location. It remains a large and vibrant consumer market. And it has acknowledged sector strengths in areas like digital, life sciences and financial services, plus huge potential in renewables due to its geographical advantages and stated policy goals.

These attributes — together with the openness of its economy, global historical links and the pivot to 'Global Britain' — help to explain why the UK continues to attract a more global cast of investors than most other FDI destinations.

… must be the goal for policy, by prioritising stability and certainty

Despite continuing strong performance, the UK still has work to do on international perceptions, addressing some of the fallout from recent political and economic turmoil, while Brexit continues to present hurdles to certain types of investment, especially those relying on access to the European Single Market. The subsidy-heavy US Inflation Reduction Act (IRA) and Europe's response suggests that competition for FDI will intensify and with the UK Government lacking resources to match the incentives being offered elsewhere, attracting green projects may become harder.

So what does this all mean for policy?

There is a clear demand from the business community for stability and certainty both in the macro-environment and a focus on economic growth. Economic stability and growth deliver both business and consumer confidence, which in turn attracts investment. The UK has made progress in this regard in recent months — with recent economic forecasts suggesting the UK will avoid a recession in 2023 — but concerns remain around underlying productivity and growth rates so plenty more to do.

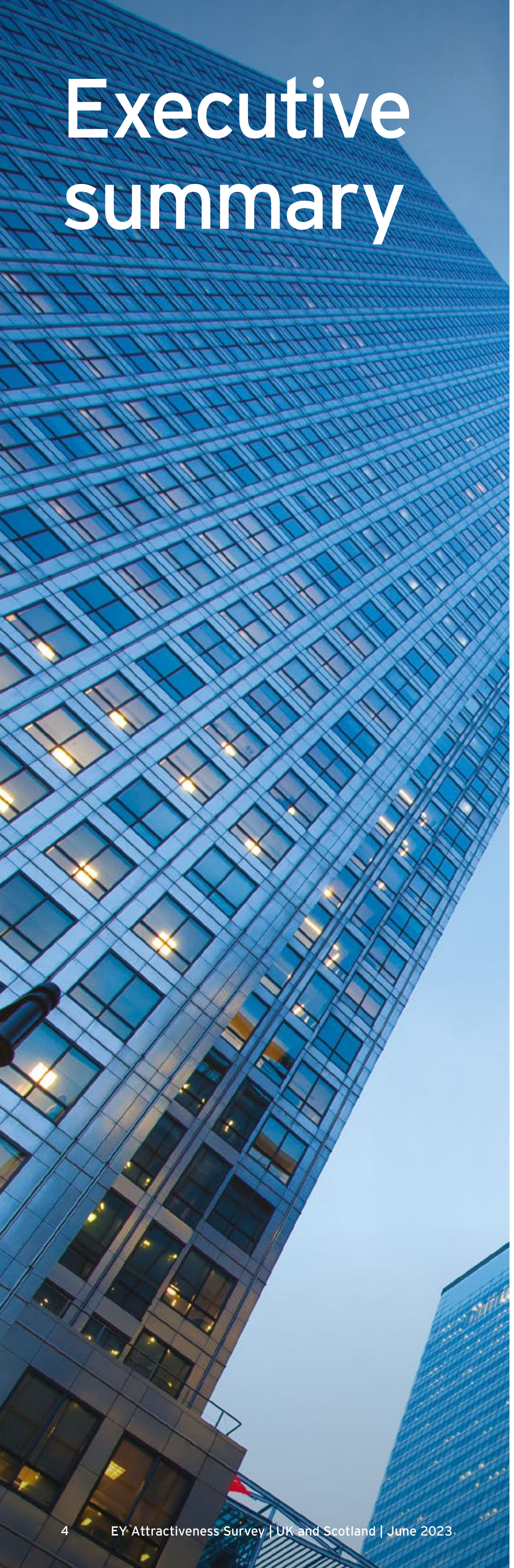
The need for stability and certainty also extend into other areas of public policy — for example, the importance of tackling infrastructure and housing pinch points through easing and accelerating planning decisions. While a focus on the skills and labour challenges the UK faces — with a workforce still smaller than pre-COVID-19 — should remain a political priority.

Through a sector lens — a priority must be an effective response to the US and European initiatives in green technology. The UK may need to consider a more active approach to industrial policy, through prioritising support to areas where the UK has underlying geographic or sectorial advantages.

Also key is creating regulation that's business-friendly as well as effective, building on traditional UK strengths, such as its market openness. Digital technology remains an area of opportunity in this regard, unlike other areas regulatory reform can be relatively low cost, and the upsides could be significant.

Towards calmer waters

This report covers a period when the UK has been navigating through significant turbulence. In doing so, it's succeeded in maintaining a steadier course in terms of FDI and attractiveness than many might have expected. Now's the time to focus on the opportunity — and head for hopefully calmer waters ahead.



Executive summary

France continues to lead the way in European FDI …

Following a 5.4% increase in the number of Foreign Direct Investment (FDI) projects in Europe in 2021, total European FDI projects edge up in 2022 by a further 1.4%, from 5,877 to 5,962. Despite the increase, European projects recorded in 2022 were still 7% lower than the pre-pandemic figure in 2019, reflecting economic and inflationary headwinds. France was Europe's biggest recipient of projects for the fourth successive year, with its projects rising by 3% to 1,259, ahead of the UK on 929 and Germany with 832.

1,259 France

929 UK

832 Germany

FDI jobs

… as UK project numbers slip back …

Against the background of a rise in European FDI projects, the UK saw its project count decline in 2022 by 6.4% to 929, the lowest for eight years. As a result, the UK's share of all European projects fell from 16.9% in 2021 to 15.6% in 2022, the lowest level in the past decade. The decline in UK projects likely reflected the political instability and uncertainty experienced in 2022, plus a trend towards net outbound project flows since Brexit.

… with UK tech projects down sharply

The UK's overall decline in projects in 2022 was largely due to a 32% fall in digital technology projects, with those recorded into London down even more sharply. However, the UK still leads Europe in the tech sector FDI with 234 projects and a market share of 19.8%. And, more positively, UK projects in the finance, utilities and pharmaceuticals sectors all rose in 2022 – reflecting the UK's sectorial strengths.

But the UK has performed well on project value and jobs …

However, project numbers only tell part of the story – the economic value of a project is more driven by the scale of the capital invested and the extent and nature of employment generated. This has led to a policy shift by UK national and regional government agencies in recent years, with a focus on securing greater value from FDI rather than chasing the largest volume of projects. This value can be difficult to measure, as not all projects announce the scale of capital invested, nor job creation numbers. However, the 2022 statistics provide evidence that this strategy is paying off, with the UK doing better on value within Europe – securing the highest FDI jobs total in Europe, at 46,779, ahead of second-placed Spain with 39,104 and France on 38,102.

46,779 UK

39,104 Spain

38,102 France

FDI jobs

… leads Europe in securing 'new' projects …

As well as leading on FDI jobs in 2022, the UK also secured Europe's highest number of 'new' investments by first-time investors, reflecting underlying dynamism in the economy. The UK attracted a total of 646 new projects – a fall of 15.4% from 2021, but still ahead of second-placed Germany. New projects into Europe overall declined by 8.5% during the year, meaning the UK's share of new projects did slip from 20.3% in 2021 to 18.7% in 2022, although this proportion is broadly in line with its decade-long average share.

646 new jobs in the UK in 2022

…and continues to perform well in R&D FDI

A further key area where the UK put in a strong showing in 2022 was in attracting research & development (R&D) projects – again reflecting a key area of policy focus from the UK government. UK projects relating to R&D rose to 127 from 111 in 2021, an increase of 14%. This rise narrowed the gap on first-placed France, whose R&D projects in 2022 were up by 8% at 144. At a sector level, the UK attracted 28 investments in R&D centres linked to pharmaceuticals and medical devices projects, the highest in Europe. R&D investments traditionally generate highly skilled employment, plus scope for commercialising any IP developed – hence the focus by policy makers.

Sectors: digital tech remains top in the UK, despite a decline …

In terms of sectors generating FDI projects in the UK, digital tech remained in first place in 2022, despite a 32% drop to 234 projects from 345 in 2021. In second place was the finance sector, up by 21% to 76 projects, closely followed by business services, down by 26% to 70 projects. These sectors' leading positions reflect the UK's heavily services-orientated economy and traditional strength in financial services. At a European level, the top three sectors in 2022 were software & IT services; business services; and transportation manufacturers & suppliers.

> The UK put in a strong showing in attracting (R&D) projects.

… while the UK remains strong in pharmaceuticals and medical devices FDI …

A particularly encouraging development for the UK in 2022 was its continuing strong showing in pharmaceuticals and medical devices. While UK pharmaceutical projects rose only modestly in 2022, up by 10% to 44, and medical devices projects actually declined by 27% to 22, the UK continues to perform well in European health sector FDI, ranking top in pharmaceutical projects (19% European market share) and second in medical devices (18% market share). The UK's strength in life sciences came to the fore during the COVID-19 pandemic, when the UK led the way on treatments, sequencing, and vaccine development. In the context of an ageing population, a continuing focus on attracting FDI into life sciences will be important.

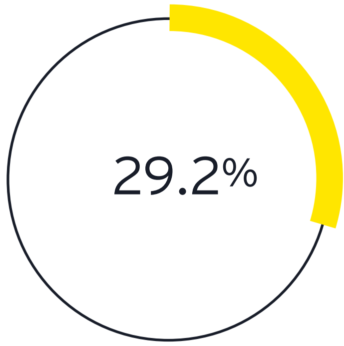
UK pharmaceutical projects rose only modestly in 2022, up by 10%

… and renewables projects offer major opportunities

Regarding investments linked to renewable energy, the UK's joint second ranking with Spain on 37 projects underlines the country's existing green credentials and its aspirations for deployment of green technology, particular for low-carbon energy and renewables. That said, the UK secured only four projects in the automotive and aerospace sectors linked to low-carbon mobility, compared to Germany's eight and Spain's 12. A clear focus on areas of UK comparative advantage in green and clean tech will be important, as the UK seeks to compete with developments like the US Inflation Reduction Act, and the EU's own response to this policy – both of which present risks to the UK's ability to attract green FDI.

Activities: business services still leads, but there's a shift from selling to creating …

The most common activity for UK FDI in 2022 remained business services, although projects in this category declined by 30%. Manufacturing projects ranked second, having risen by 17%. In terms of European market share, the UK generally secures its highest proportion of projects in headquarters projects – and that was again the case in 2022, with the UK winning 29.2% of European headquarters investments.



In 2022, the UK won 29.2% of European headquarters investments

… as manufacturing and industrial activity show a welcome increase …

Alongside the 17% rise in manufacturing FDI in 2022, the UK also recorded a healthy increase in wider industrial projects, up 21% to 175. This rise was largely due to an increase in manufacturing activity within the agri-food (up 9 projects on 2021), utility supply (up 7 on 2021), and pharmaceutical sectors (up 8 on 2021). The rise in UK manufacturing projects took the UK's European market share up to 10%, close to its ten-year average of 10.3%. Other noteworthy changes included rises in R&D (+13%) and logistics (+34%) projects, and a decline in sales & marketing investments (-63%).

+17% **Manufacturing** projects in 2022

+21% **Industrial** projects in 2022

+34% **Logistics** projects in 2022

… indicating a pivot towards strategic investment – and opening up opportunities for the future

Together, the recurring evidence of higher job creation in the UK, as well as the trending of activity towards headquarters location, manufacturing, R&D and logistics while moving away from less embedded sales and marketing activity, indicate a pivot towards strategic investment: a key policy goal will be capitalising on strong R&D investment made now through larger industrial projects downstream. There are strategic advantages in being able to do both R&D and manufacturing, and typically financial considerations drive manufacturing to lower-cost countries in the long-run. Mitigating this risk through policy will be an important challenge to address.

Origins of investment into the UK: the US still leads – but India is on the rise …

The United States remained the UK's biggest investor in 2022, contributing 222 projects accounting for 23.9% of all UK investments, including 32% of all projects in Scotland. It's worth noting, however, that the US market share of investment into the UK has been declining since 2019, a year that witnessed the zenith of US investment into the UK for the past decade. Overtaking Germany in second place for projects into the UK was India, with 8.8%. The UK remains a clear destination of choice for Indian investors into Europe, securing 58.2% of Indian projects in Europe in 2022, up from 51.2% in 2021. Meanwhile, UK outbound projects jumped after the Brexit referendum, and have continued to increase each year apart from the pandemic-affected year of 2020.

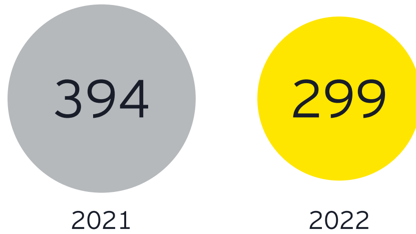
> The United States remained the UK's biggest investor in 2022.

… as the UK looks globally for FDI

Shifts in FDI origins are reflecting the UK's drive to broaden trading ties with major multilateral trading blocs beyond Europe. Of the UK's nine leading sources of FDI in 2022, five were outside Europe, including Australia and Canada as well as India. The UK, in contrast to some of its European neighbours has historically benefited from a more diverse base of investment – and based on the current direction of travel this trend looks set to continue. By contrast, of Europe's nine leading origins in 2022, seven were within Europe (including the UK, in third place).

London slips back but remains the leading UK FDI destination …

Looking across the UK's devolved administrations and regions, Greater London has historically been the leading destination for FDI projects, securing 40.9% of all UK projects over the past decade. While it remains the number-one location for inward investors, London projects fell by 24.1% to 299 in 2022 from 394 in 2021. As a result, London's share of UK projects fell to a decade-low 32.2%. The main driver of the decline was a drop of 44.9% in London's digital technology projects, from 194 in 2021 to 107 in 2022.



London FDI projects

… as most other UK regions narrow the gap …

With projects in London slipping back, most other parts of the UK gained ground on it by increasing their project numbers, providing evidence of 'levelling up' in terms of FDI. Seven of the eleven regions outside London recorded increases in 2022, with only the South East of England, West Midlands, South West and Northern Ireland registering declines. Those recording increases were Wales (82%), the North East (33%), Yorkshire and the Humber (28%), the East Midlands (23%), the North West (19%), the East of England (10%), and Scotland (3%).

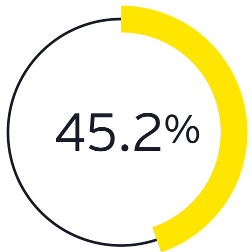
Scotland was the UK location securing the second highest number of projects in 2022.

… while Scotland retains second place …

Scotland was the UK location securing the second highest number of projects in 2022, a position it has also held in nine of the past ten years. Scotland recorded 126 projects in 2022 compared to 122 in 2021, a rise of 3.3% – the fourth successive annual increase, and Scotland's largest ever total. Major drivers of Scottish FDI projects included digital technology and utility projects, including renewables. Scotland's share of all UK projects continued to rise, reaching 13.6% in 2022 from 10% in 2019 and 12.3% in 2021.

… and Manchester and Edinburgh retain their lead among UK cities outside London

After London, the UK's most successful FDI cities in 2022 were Manchester, whose projects rose by 45.2% to 45, and Edinburgh, up by 22.6% to 38. Both totals were these cities' highest since 2018. Strong growth was also recorded by third-placed Birmingham, which increased its project count by 64.7% to 28, while Glasgow remained fourth despite a small fall in projects, ahead of Belfast in fifth, also down. Manchester, Edinburgh, and Belfast are especially strong in securing digital projects, while Birmingham and Glasgow appear to attract investment interest from a broader spread of sectors.



In Manchester, projects rose by 45.2% to 45

Investor perceptions: while short-term measures of the UK's attractiveness has slipped …

When we asked respondents to our global investor survey which three European countries they believe will be the most attractive for foreign investment in 2023, the UK was cited by just 32% compared to 44% in 2022. This took it from second to third place, with the fall probably reflecting the political uncertainty the UK experienced in 2022, with three different prime ministers and four chancellors in the space of 12 months. Germany, despite facing its own economic headwinds from higher energy prices, unexpectedly leapt by 20 percentage points to 62%, leapfrogging France on 49% to take first place.

… investors' intention to invest in the UK has never been stronger

More positively, and in contrast to the downturn in short-term sentiment, an impressive 65% of investors surveyed were planning on making an investment in the UK in 2023 – the highest level ever recorded in this research. Meanwhile, expectations of the UK's attractiveness over the next three years have remained largely unchanged, with 48.6% believing the UK's attractiveness will increase compared to 49.4% in 2022. Where respondents foresee a decline in attractiveness, the main reasons are an increased regulatory burden (55.6%), higher costs (54.2%), and a reduced market size (38.9%).

65%

of investors surveyed were planning on making an investment in the UK in 2023

The UK is still favoured on several key investment criteria …

The UK remains favoured by investors on important criteria including the size of its domestic market, the quality of education, and the quality of life, diversity, culture and language. These attributes are traditional strengths of the UK relative to competing destinations and are qualities that policy will need to safeguard while seeking to attract investment. The UK is rated relatively less attractive on factors such as corporate taxation and the availability and cost of real estate, again continuing existing trends.

… and levelling up and sustainability are on investors' agenda …

Asked what policy action would most improve future attractiveness, the geographic rebalancing of the UK economy ranked first, cited by 30% compared to 20% last year, correlating with the rise in projects in most areas of the UK outside London. And 81.2% believe the UK ranks highly in offering the right environment to achieve ESG goals – a finding that underlines the opportunities in renewables and cleantech, and which reflects the UK's strong showing in renewable energy projects in 2022, joint second in Europe with Spain.

… with investors in chemicals, pharmaceuticals and finance – and R&D – particularly positive …

Intention to invest in the UK is especially strong in the chemicals and pharmaceuticals sector, where 84.6% of investors are planning to undertake a UK project in the next year, an intention also voiced by the vast majority of financial investors (82.5%). Also, most investors in UK R&D projects are looking to increase their footprint in the UK, with 53.8% saying this is their expectation, rising to 70% of R&D investors in the industrials sector. Again, this appears to reflect the effects of the policy pivot towards value over volume.

… and finance, services, and tech expected to drive the UK's future growth

Asked which business sectors will be most important in driving the UK's growth in the coming years, 35.5% of executives rank financial services either first or second as a UK growth driver, narrowly ahead of software & IT services on 34.9%. These findings are mirrored by the UK's continuing substantial share of European projects in both of these sectors – running at 26% of finance projects and 19.8% in of digital projects in 2022. Also, the proportion of UK investors planning to change their supply chain model has dropped from 39% in 2022 to just 18.8% this year, as the pressures from the pandemic ease. Among those companies looking to change their supply chains, the biggest single reason is to improve sustainability (42.9%), closely followed by digitalisation (41.6%) and enhancing cost effectiveness (40.3%).

Regional perceptions: London still leads, followed by Scotland …

London remains the most attractive region of the UK in which to establish operations, cited by 41% of respondents (up from 27% last year), with Scotland in second place on 11% (down from 15.8%), and the East of England third on 9% (up from 5.2%). Significant gains in perceived attractiveness have also been made by Wales (up by 1.1 percentage points to 8.3% in fourth place) and Northern Ireland (up by 2.1 percentage points to 3.9%).

… and the factors influencing regional FDI choices are shifting, with grants and incentives now top

The factors influencing decisions to invest in regions outside London are changing, with access to grants and incentives now leading the way, cited by 22.5% of investors – a finding that sends a clear signal to policymakers at both a national and regional level. In second place is the availability of business partners and suppliers at 18.1%, and the availability and skills of the local workforce is joint third on 17.4% (down from 27% last year), level with the strength of business networks locally. Notably, local labour costs have receded as an issue, falling to 16.4% from 23.5% in 2022, perhaps reflecting a cooling labour market.

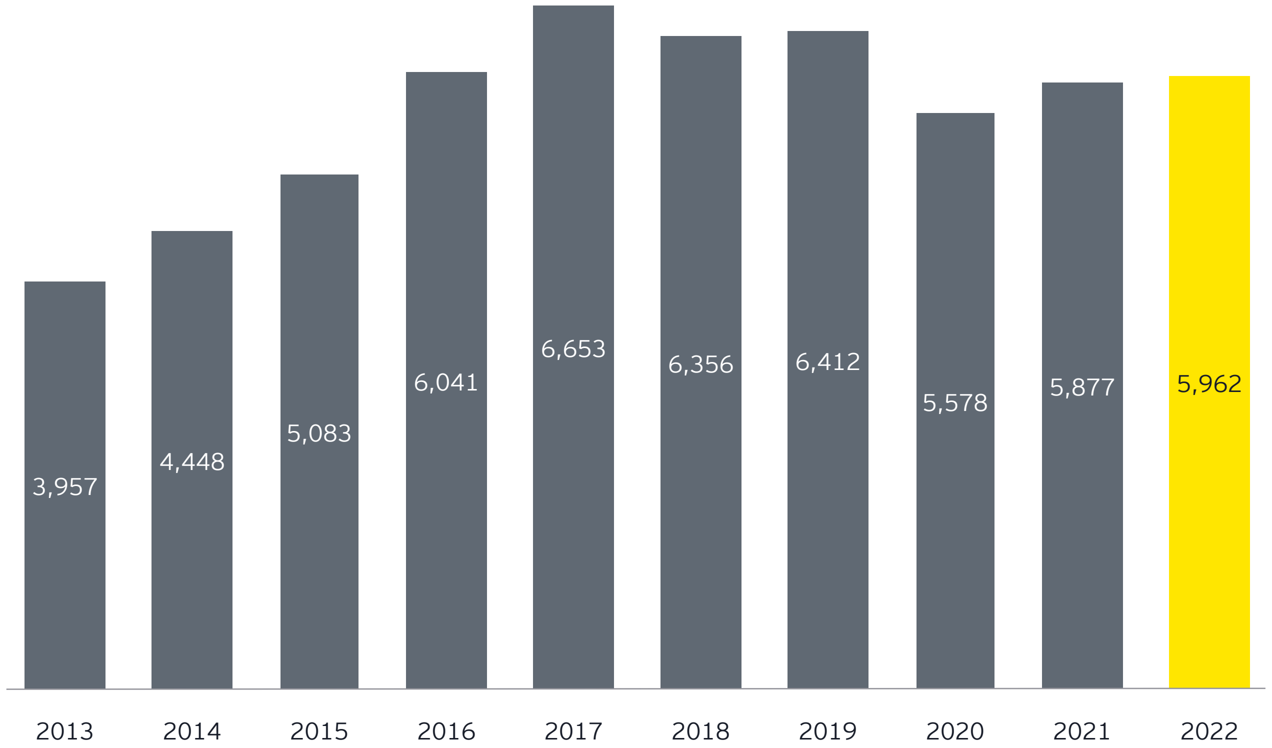
The UK's FDI performance in 2022: from volume to value

The UK remains second in Europe for FDI, despite a fall in project numbers ...

In 2022, the number of FDI projects recorded across Europe edged up by 1.4%, from 5,877 in 2021 to 5,962 in 2022. Our global survey of executives shows the modest scale of this rise largely reflected the challenging economic environment triggered by the war in Ukraine, which pushed energy prices and inflation upwards and boosted geopolitical uncertainty. As a result of these factors, the number of direct investments in Europe is still below pre-pandemic levels, down from the 6,412 projects secured in 2019.

The number of direct investments in Europe is still below pre-pandemic levels.

Figure 1: Total European projects, 2013-2022

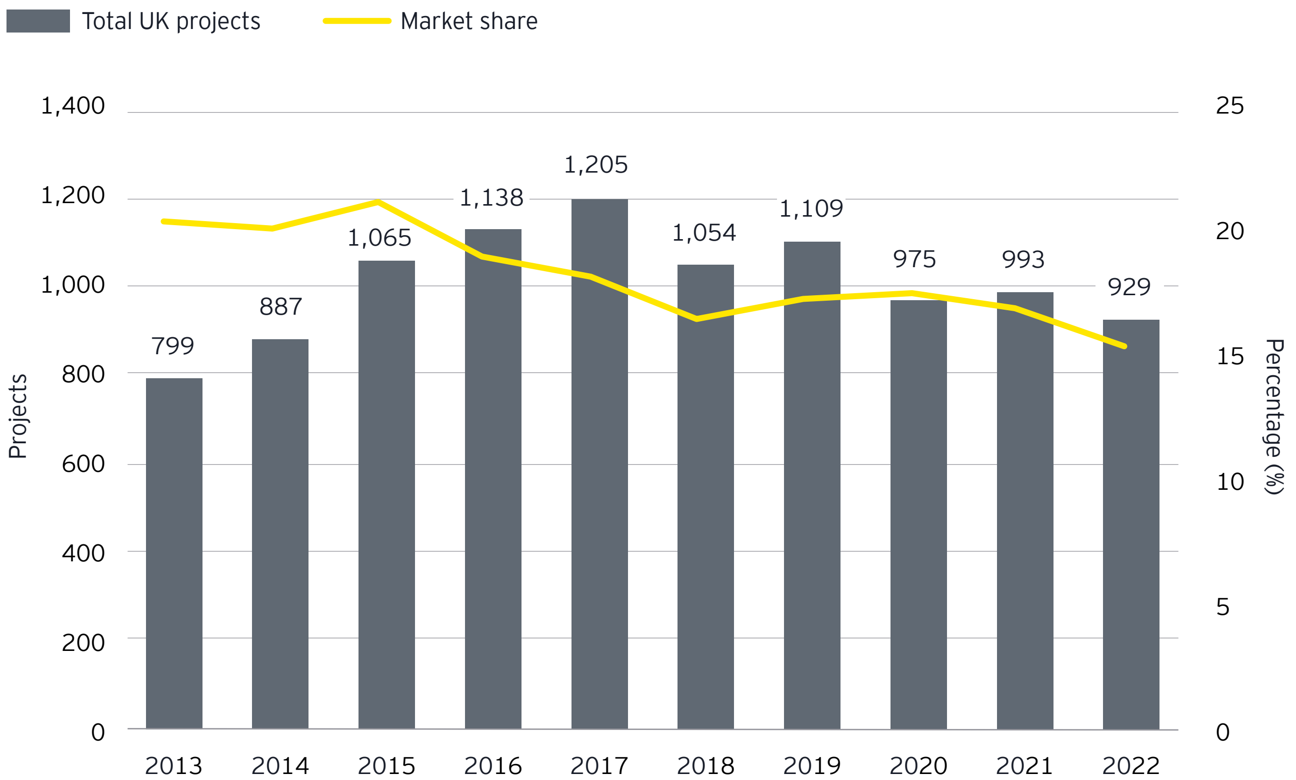


Source: *EY European Investment Monitor (EIM), 2013-22*

The 2022 investment figures also show that France has retained its position as Europe's leading FDI destination, attracting 1,259 projects, an increase of 3%. It's widely perceived that the groundwork for France's continued strong performance was laid by President Macron's series of business-friendly reforms.

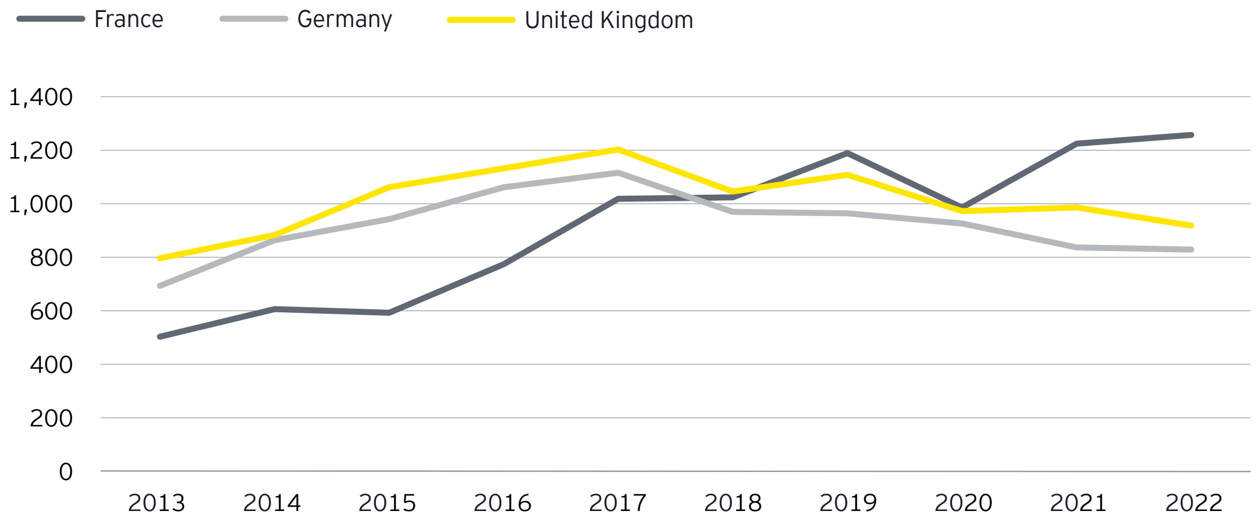
While projects into Europe rose in 2022, the number secured by the UK fell by 6.4%, to 929 from 993 in 2021. However, despite this decline, the UK retained second place among European recipients of FDI, behind France and ahead of Germany. The fall in UK projects appears to reflect the political instability seen throughout much of 2022, together with a medium-term trend since Brexit towards net outbound project investments. Based on the forward-looking results from our perception survey in 2023, UK-specific issues look to be an ongoing concern among investors, although current global economic headwinds are also a consideration.

Figure 2: Total UK projects and European market share, 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 3: Evolution of top three destinations for FDI into Europe, 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

... with tech projects into London driving the decline

The decline in UK projects in 2022 was largely driven by a significant fall in tech projects into London, which slumped to 107 from 194 in 2021. However, to put this fall into context, projects across Europe from the tech sector were also down marginally after a strong run. In each of the past 10 years, the digital tech sector has contributed more projects across Europe than any other industry, and its share of all European projects in 2022 was 19.8%, marginally lower that its share 20.1% in 2021.

In the UK and London particularly, several drivers lay behind the sharp decline in tech projects in 2021. While volume was down value remained solid, reflecting the fact that smaller tech projects are not being prioritised by investment agencies. Also, the sector faced global headwinds, and there may be an element of catch-up in other countries, given that the UK and London received historically very high numbers of tech projects in the years 2016 to 2019. Finally, while the UK's overall project figures may have dropped, the average jobs announced, focus in terms of activities, and level of capital expenditure all indicate a focus on higher-value projects into the UK.

As well as falling in the UK, projects in Germany were also down, by 1% to 832, probably reflecting the pressure on German supply chains and the impact of higher energy costs. Together, Europe's 'big three' FDI destinations – France, the UK and Germany – continue to account for 50% of the total of investments across the continent.

In the UK and London particularly, several drivers lay behind the sharp decline in tech projects in 2021.

But the UK performs well on project value, delivering the highest FDI jobs total in Europe ...

As noted above, the fall in UK project numbers in 2022 was compensated for by a stronger UK performance on the value of projects – reflecting the Government's shift away from volume and towards value. Most notably, in terms of FDI employment creation announcements[1], the UK came top in Europe, with its projects delivering 46,779 jobs. While this represented a year-on-year fall of 33.2%, it's important to note that 2021 was a record year for UK FDI jobs and a clear outlier over the past decade.

There were also relative declines in FDI employment creation in most other countries. Spain came a close second for FDI jobs with 39,104, down by 1.6% on 2021, while third-placed France dropped by 14.9% to 38,102 job announcements. However, Germany's fourth-placed total of 33,548 jobs reflected a huge rise of 58.2%. This made Germany and Ireland (with a 21.4% increase) the two outliers in terms of higher jobs creation from FDI in 2022.

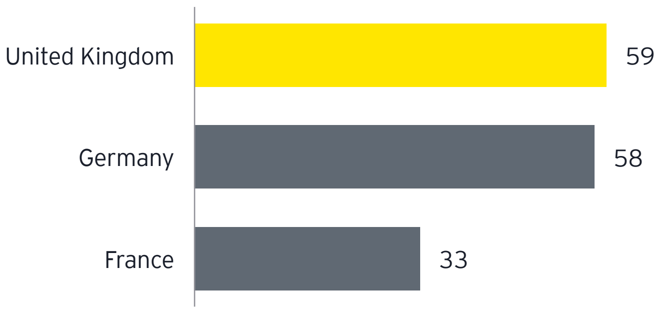
When broken down to a per project level and compared across countries, the job announcement figures again appear to reflect the impact of value-over-volume strategy being pursued by the UK and Germany. The average job per project in the UK was 59, similar to Germany (58) and much higher than France (33). The UK also led the way in terms of projects creating large numbers of jobs, with 103 UK projects recording over 100 jobs created compared with 89 in France on, 62 in Spain and 48 in Germany.

Figure 4: Total jobs announced in five largest investment countries, 2021-2022

Country	2021	2022	Change 2021-2022
United Kingdom	70,022	46,779	-33.2%
Spain	39,744	39,104	-1.6%
France	44,751	38,102	-14.9%
Germany	21,211	33,548	+58.2%
Ireland	19,252	23,371	+21.4%

Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 5: Average jobs announced per project in Europe's three largest FDI countries, 2022

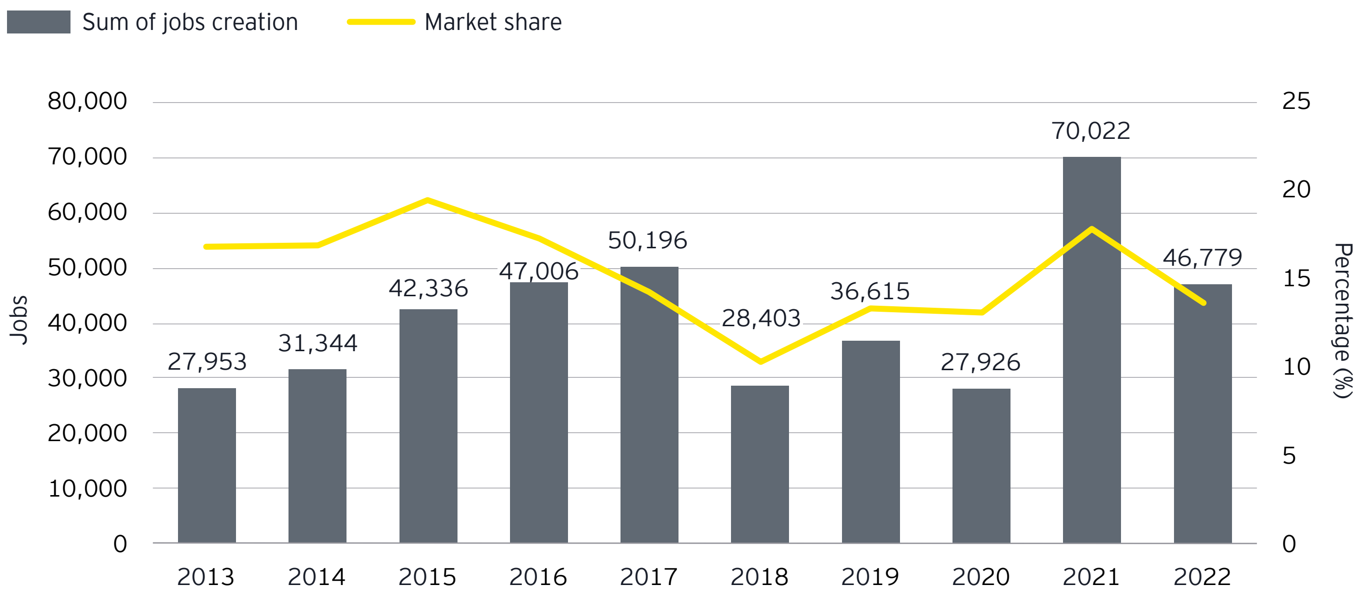


Source: *EY European Investment Monitor (EIM), 2022*

The fall in UK project numbers in 2022 was compensated for by a stronger UK performance on the value of projects.

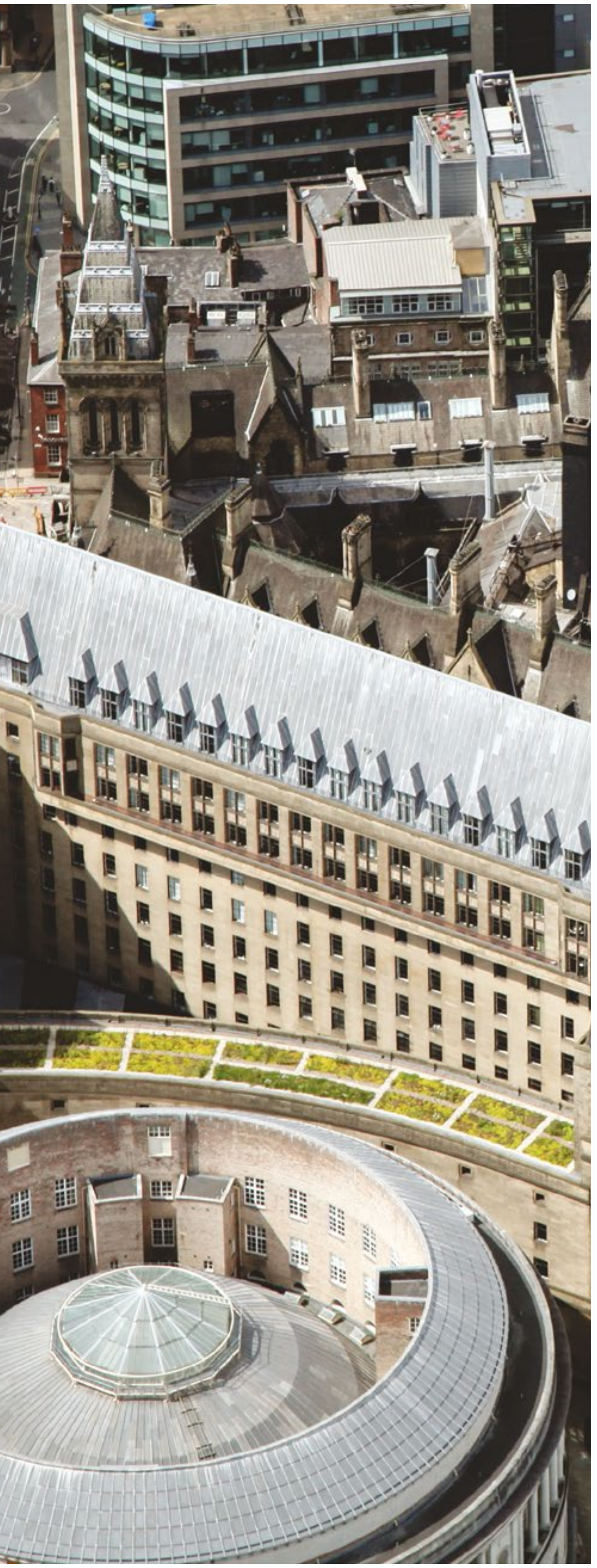
That said, some of the economies further down Europe's FDI ranking have outperformed the larger FDI destinations in terms of the average number of jobs created per project. Based on employment generation, the average project created 334 jobs in Serbia, 326 in Spain, 253 in Hungary and 239 in Romania. These are likely to reflect the presence of larger manufacturing projects than those the UK, France and Germany tend to attract.

Figure 6: Total UK employment from investment projects recorded 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

[1] The EY EIM database focuses on job announcements. These figures are often announced at the beginning of an investment and may be subject to change over time. As such, the jobs figures should be read not as jobs already created, but as the number of jobs anticipated to arise from such an investment.



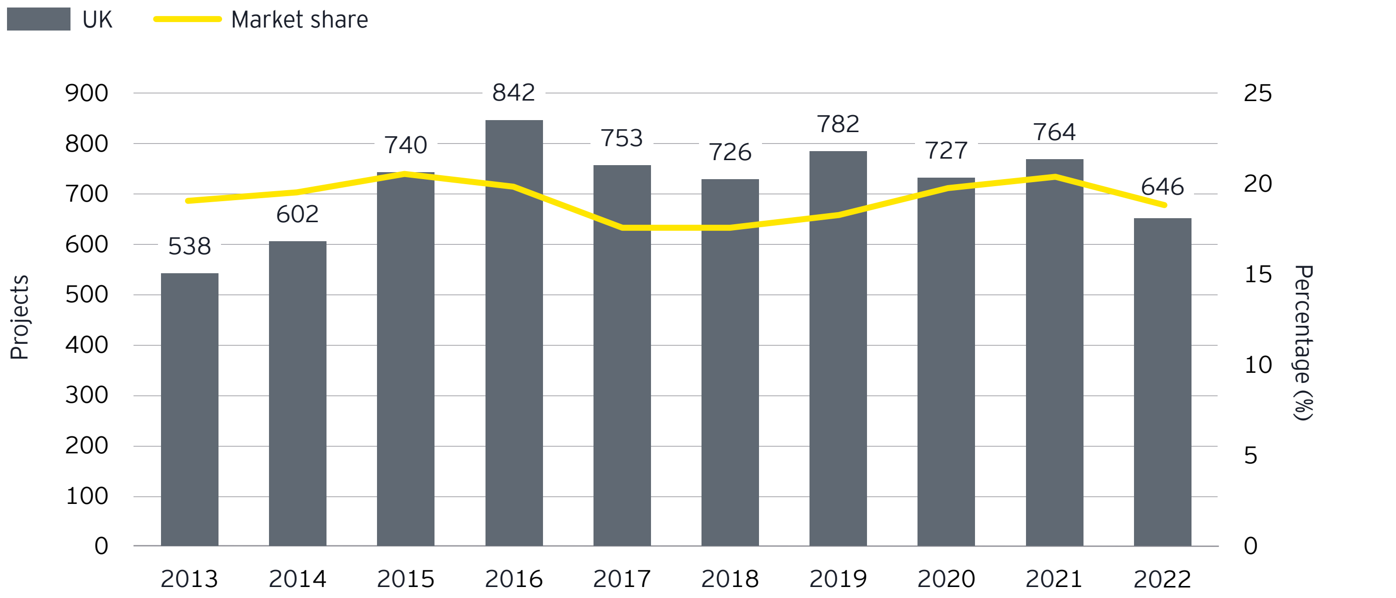
… and maintains its lead in securing 'new' projects

As well as leading on FDI jobs in 2022, the UK also secured Europe's highest number of 'new' investments by first-time investors, as opposed to expansions of existing operations. The UK has now led Europe on new projects for the past four years, after taking over that position from Germany. During 2022, the UK attracted a total of 646 new projects – a fall of 15.4% from 2021, but still ahead of second-placed Germany with 511. New projects into Europe overall declined by 8.5% during the year, meaning the UK's share of new projects slipped from 20.3% in 2021 to 18.7% in 2022, broadly in line with its decade-long average share of 19%. The UK's continued strength in attracting new projects is a reflection of its ability to attract a dynamic and new investor base.

Comparing Europe's five largest recipients of new projects in 2022, we find that the UK recorded 26% more new projects than Germany. And while the UK secured its lowest number of new projects since 2014, for Germany it was the lowest number in the past decade. Only France and Portugal increased their new project count in 2022, with France's total of 447 representing a jump of 17.3% – an impressive performance against the background of new projects across Europe falling by 8.5%. Portugal joined the 'big four' recipients of new projects with an even bigger increase, as its new projects leapt by 77.9% to 185.

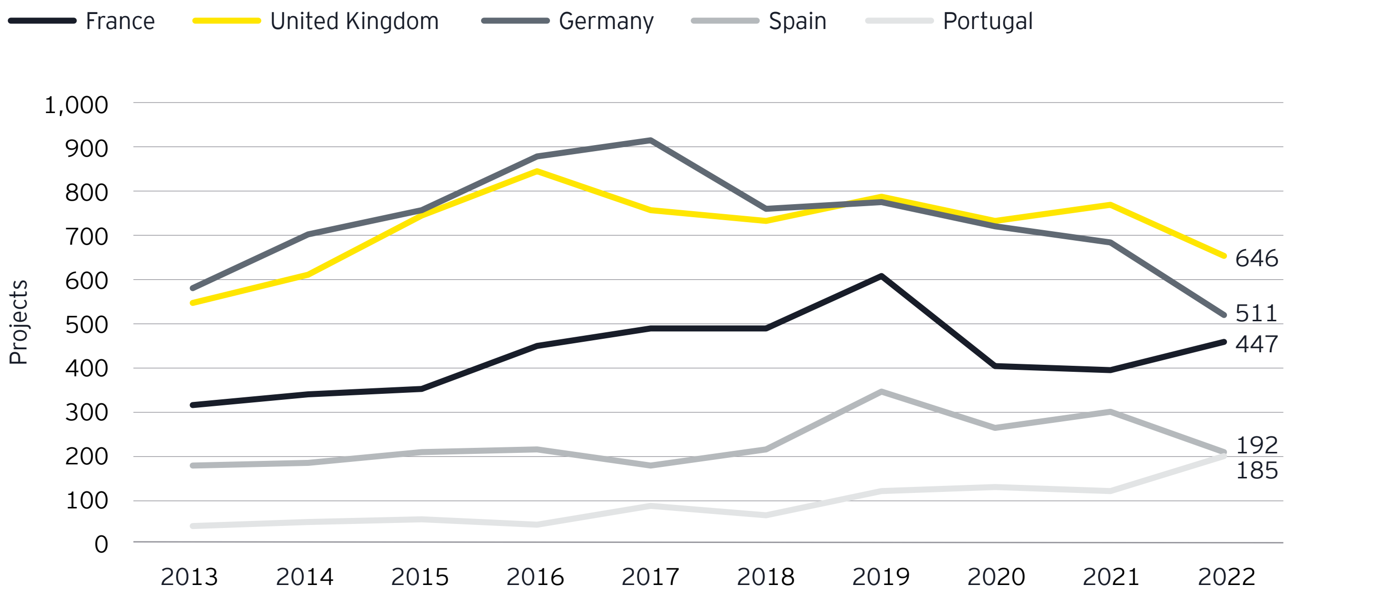
The UK has now led Europe on new projects for the past four years.

Figure 7: New UK projects and market share of all new European projects 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 8: Largest five recipients of new projects in 2022 – results from 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Sectors for UK FDI: industry trends continue to shift

Digital and services lead the way across Europe ...

At the European level, the top sectors by number of projects in 2022 were digital technology (software & IT services) with 1,182, an 8% increase on 2021; business services & professional services with 765, a 27% increase year-on-year; and transportation manufacturers & suppliers with 470 projects, a 7% decrease. Both business services, professional services and the utility supply sector – which includes renewables projects, and which was also up 27% – had a very strong year.

1,182

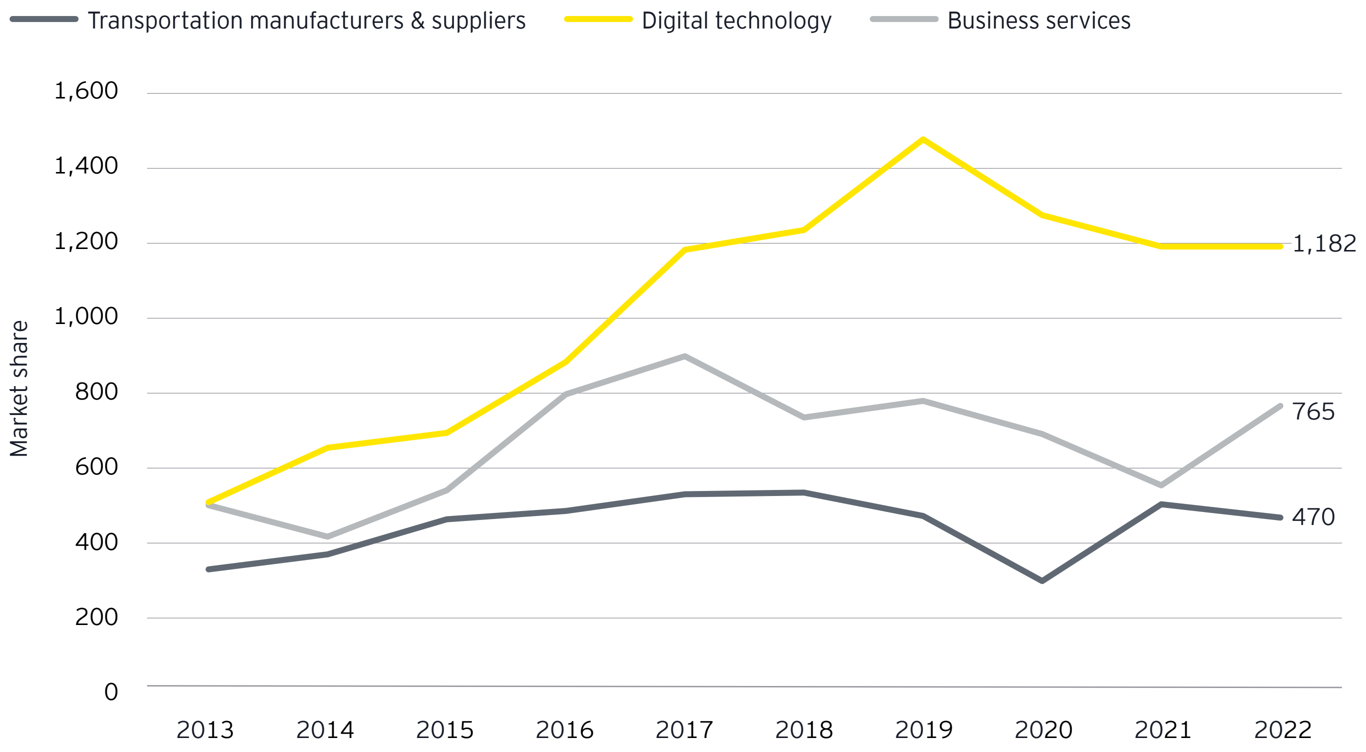
digital technology (software & IT services) projects.

The project flows by sector broadly reflect the responses to our global investor survey, in which executives in pharmaceuticals (85%), business services & professional services (71%), finance (71%) and chemicals (70%) all voice a strong expectation to establish or expand operations in Europe over the coming year. As we'll note in greater detail in our analysis of our perception survey findings in the final section of this report, the appetite for establishing and expanding in these sectors could be explained by the factors investors cite as most important in their decision-making. Tellingly, respondents in all of these sectors rank availability of capital, R&D, and the approach to climate change highly in their decision-making calculus – indicating that Europe has a competitive advantage over other regions that should be built upon. By contrast, the high tech, industrials and consumer sectors all appear to have sector-specific needs driving their decision-making.

... while in the UK, digital is way ahead – with finance a distant second ...

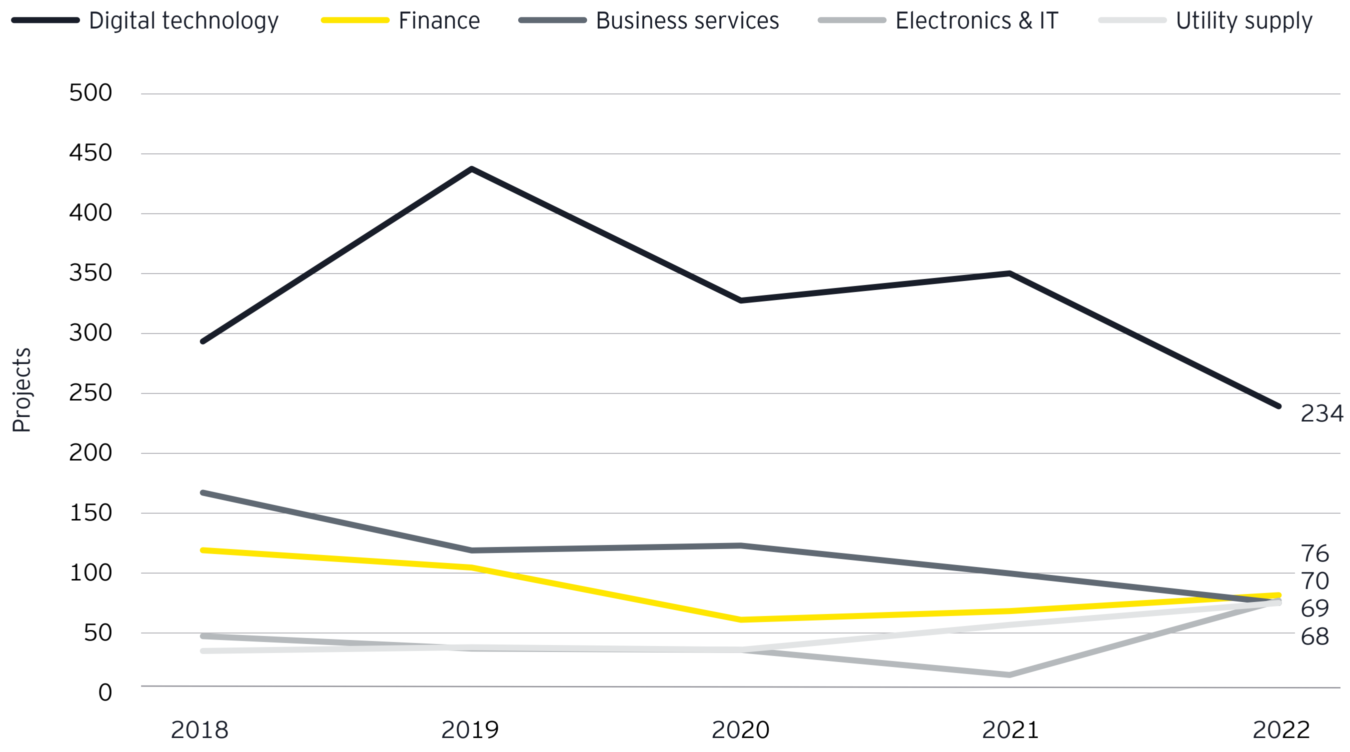
As in Europe, the leading sector for projects within the UK in 2022 was once again digital technology, despite it reporting a 32% drop in projects from 345 in 2021 to 234 in 2022. It was followed by the finance sector, whose projects rose by 21% from 63 in 2021 to 76 in 2022. Third place was taken by business services & professional services, which saw its projects decline by 26% from 94 in 2021 to 70 in 2022. The UK's rise in finance projects took its market share of all European finance projects up to 26% from 22.7% in 2021. However, in digital projects, the UK's 19.8% market share in 2022 was well below its decade long average of 28.3%, while in business services the UK's share of 9.2% was less than half its ten-year average of 19.9%. The situation in these sectors seems to be that UK has had its share of investment, and now other countries are catching up.

Figure 9: Total project numbers for the three leading sectors generating projects for Europe 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 10: Performance of the leading sectors generating investment projects in the UK 2018-2022

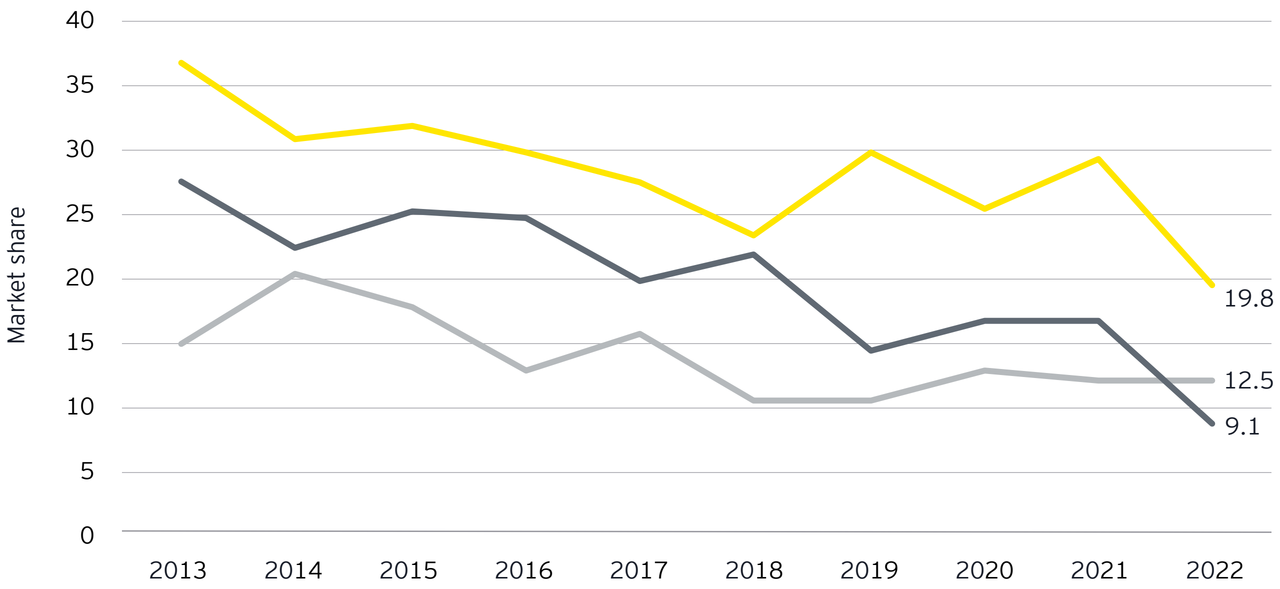


Source: *EY European Investment Monitor (EIM), 2018-22*

Looking first at digital technology, this sector has announced more projects across Europe than any other sector in each of the past 10 years. The digital tech sector's share of all European projects in 2022 was 19.8%, marginally lower than the 20.1% share of projects it contributed in 2021.

In the UK the digital technology sector accounts for an even larger proportion of total projects, with more than a quarter – 25.2% – of all UK investment project announcements in 2022 coming from the sector, despite the decline in digital project numbers. In 2021, the UK secured 29.2% of all digital technology projects announced across Europe, but this fell to 19.8% in 2022. To an extent, the UK's declining market share in 2022 appears to be a further reflection of its focus on attracting higher-quality projects offering greater job creation and capital investment. The UK is highly attractive for digital investment for a variety of reasons. But in terms of the competitive advantage it has within Europe, our survey shows that investors think the UK not only has a bigger workforce and pool of in-demand skills in the digital sector, but also ranks comparatively well on data regulation and a range of factors related to access to capital.

Figure 11: UK market share of the three leading sectors generating projects for Europe 2013-2022

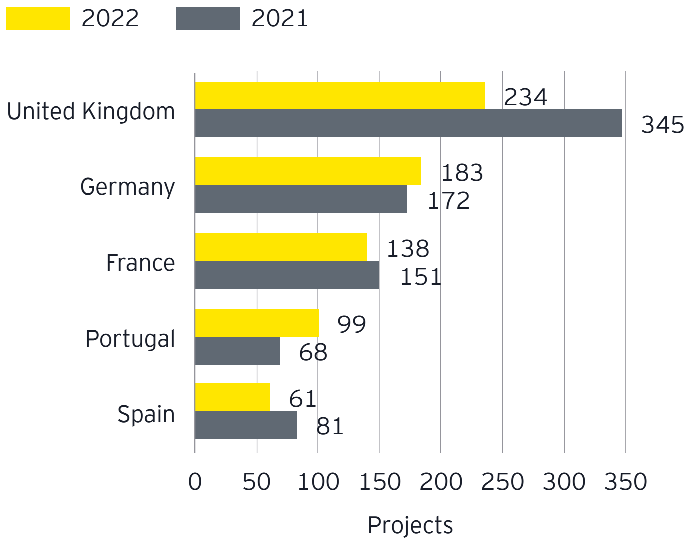


Source: *EY European Investment Monitor (EIM), 2013-22*

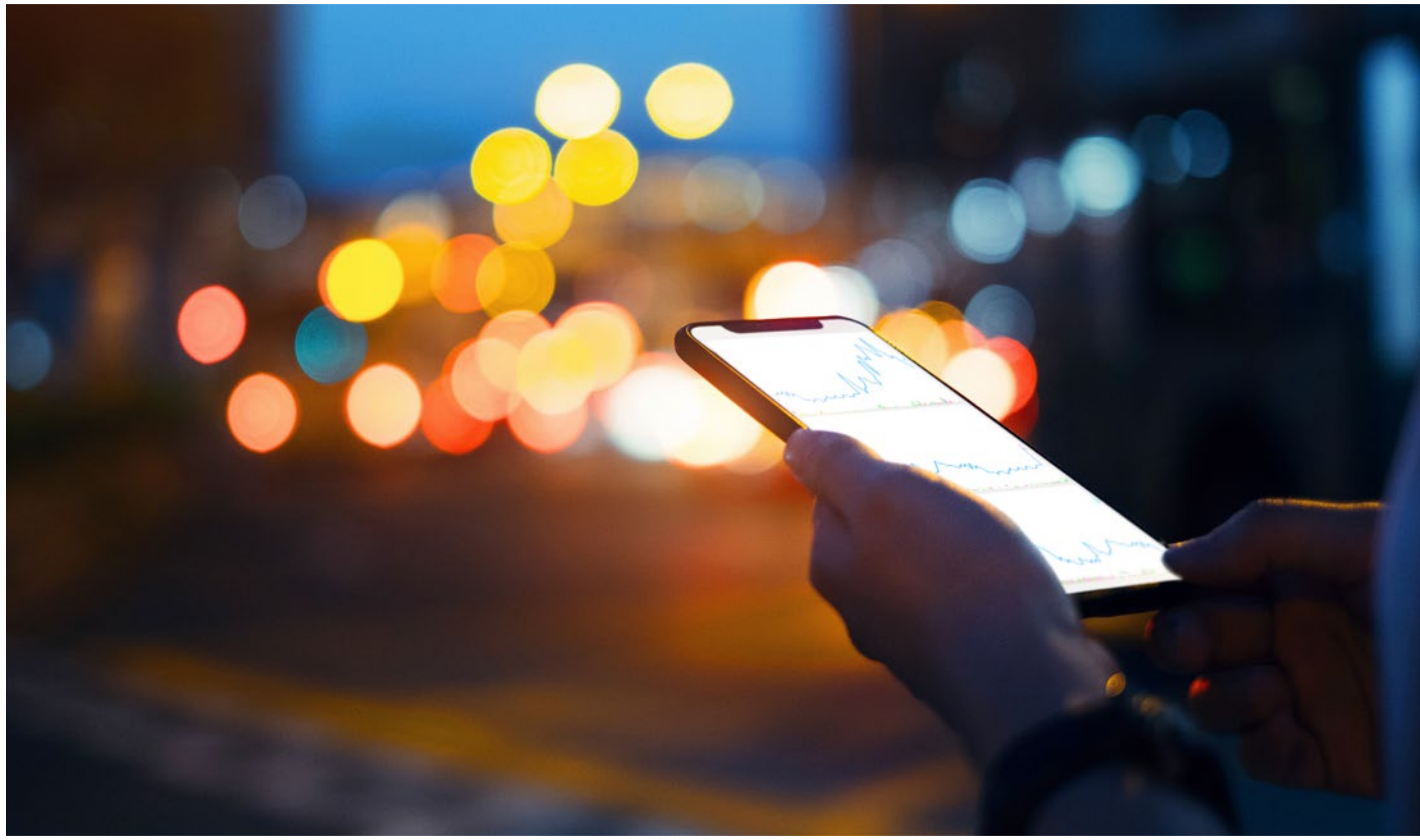
A comparison between the European countries that rank highest for digital investments shows that the UK, Spain, and France have seen a decline in project numbers in 2022. However, powered by strong performances from their respective capital cities, Germany and Portugal have been able to attract more digital investment projects despite the challenges facing the sector globally in 2022. Understanding the success of the Berlin and Lisbon tech investment scenes should be a priority for policymakers in this area.

> The UK secured 29.2% of all digital technology projects announced across Europe.

Figure 12: Number of digital technology projects in the top five investment locations for the digital sector, 2021-2022



Source: *EY European Investment Monitor (EIM), 2021-22*



UK financial services FDI maintained its historically strong showing in 2022, with the UK securing 26% of all finance project announcements made across Europe compared to 22.7% in 2021. Looking back, the UK saw a relatively sharp dip in finance sector investments in 2017, but even then it retained the top spot in Europe. The UK's 2022 share of finance projects was its highest since 2019 (26.6%), but well below the high-point of the past decade, the 35.1% recorded in 2016.

It's notable, however, that the finance sector has not resumed the same level of project investments that it was making before the pandemic – a shift that appears to be a Europe-wide phenomenon as opposed to UK-specific. The UK's resurgent market share since 2020 seems to underline the stability of the banking sector in the UK. Given that the latest EIM has tracked projects until the end of 2022, it seems likely that the positive trend in UK financial services FDI will continue, as the Edinburgh Reforms announced at the end of 2022 signal positive mood music to investors – in contrast to the otherwise largely negative press comment on the financial markets in recent months.

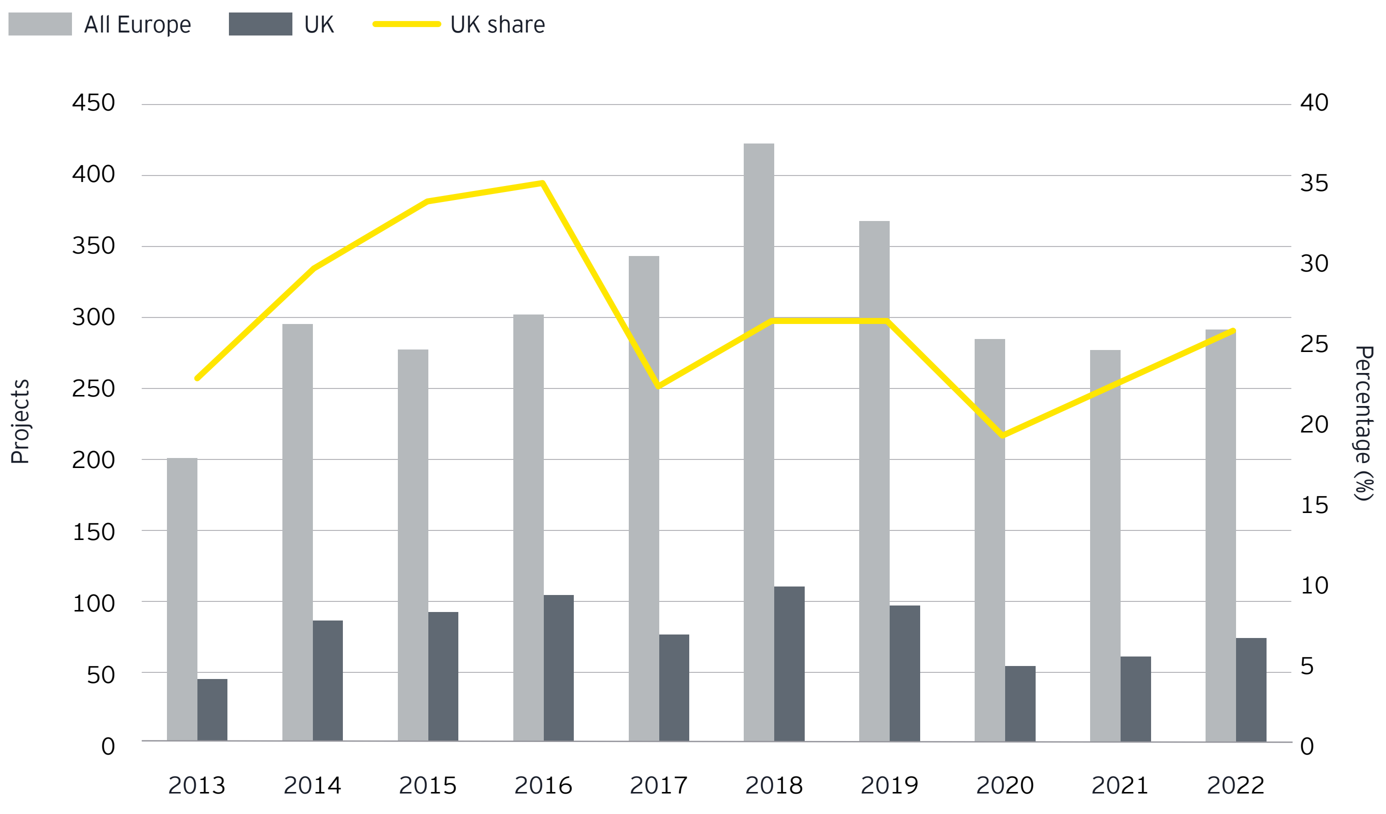
... and the UK's strength in health-related and renewables FDI continues

While the UK saw its pharmaceutical projects rise by only a modest 10% in 2022 to 44, and its medical devices projects declined by 27% to 22, the UK remains a leading force in European health sector FDI – ranking top in pharmaceuticals projects with a European market share of 19%, and second for medical devices projects with an 18% share. Despite the overall decline in health sector projects in 2022, these are continuing to run above pre-pandemic levels. The UK's strengths in life sciences came to the fore during the COVID-19 pandemic, when the UK led the way on treatments, sequencing, and vaccine development. In the context of an ageing population, a continuing focus on attracting FDI into life sciences will remain important for UK policymakers.

The UK also performs well on investments linked to renewable energy, where it ranked joint second with Spain in 2022 on 37 projects. An analysis of project flows also points to the beginnings of a move to repatriate production capacity in Europe, a shift that mainly benefits the UK, France, Germany and Ireland.

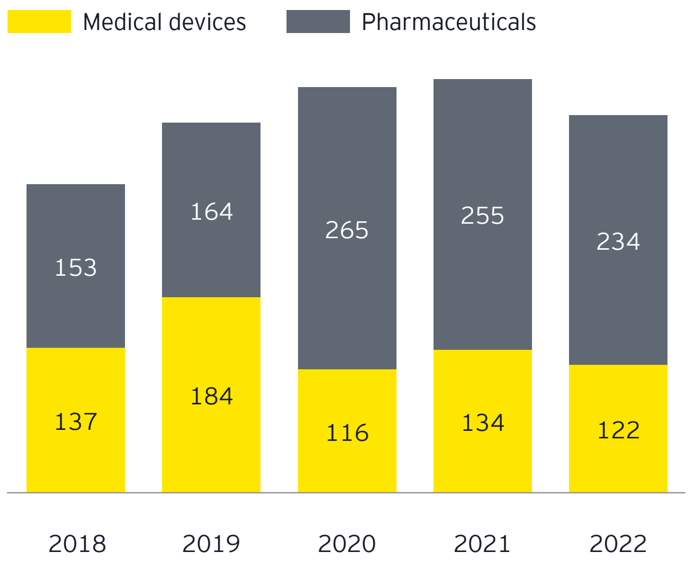
The UK's strengths in life sciences came to the fore during the COVID-19 pandemic.

Figure 13: Financial Services projects and UK market share 2013-2022



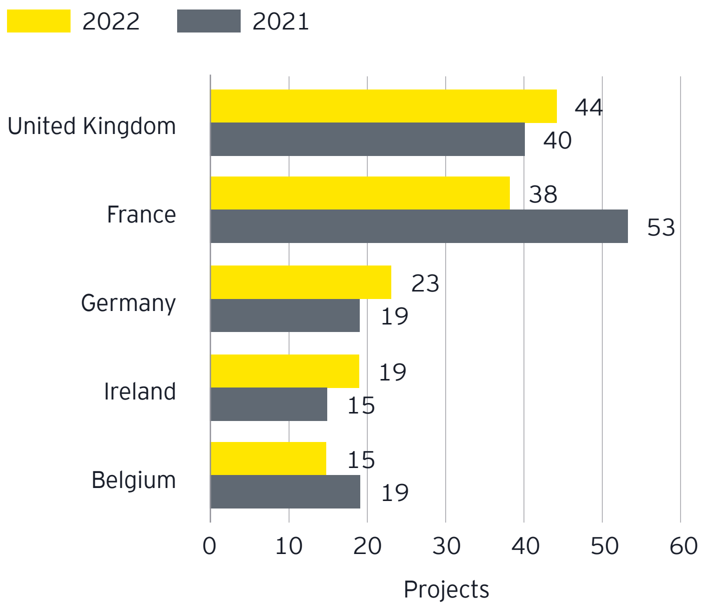
Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 14: Number of foreign investment projects in the pharmaceutical and medical devices sectors across Europe, 2018-2022



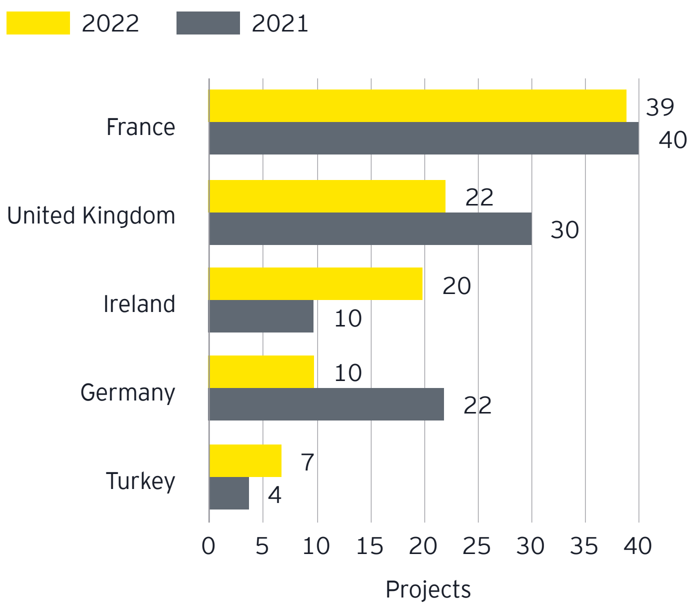
Source: *EY European Investment Monitor (EIM), 2018-22*

Figure 15: Top five countries with the most projects in the pharmaceuticals sector 2021/2022



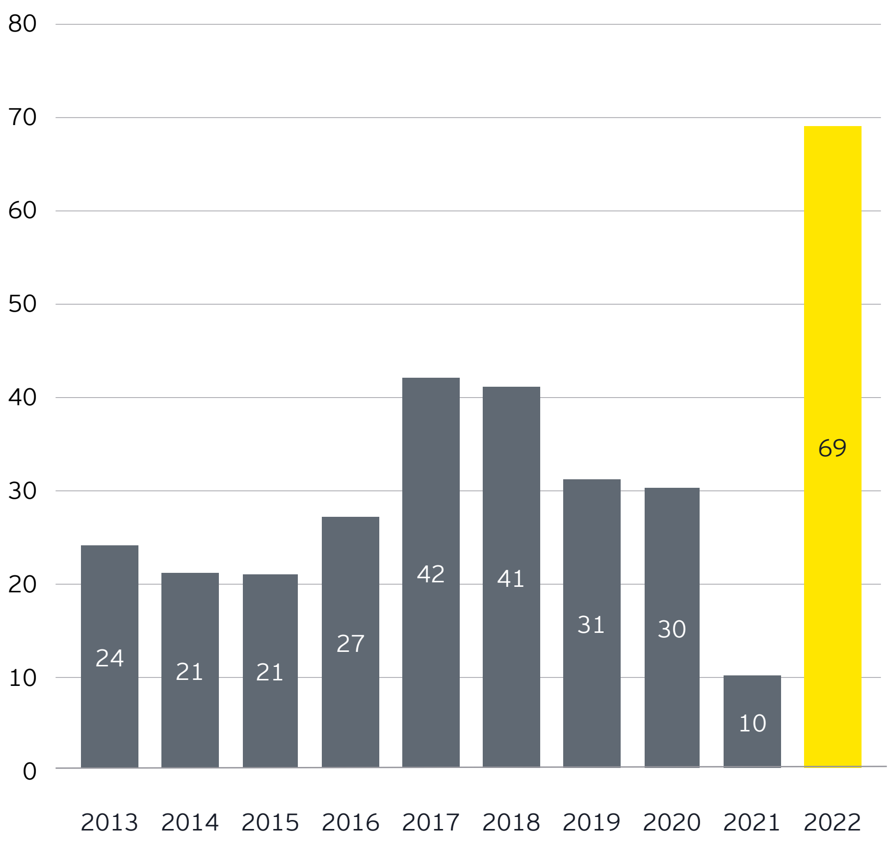
Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 16: Top five countries with the most projects in the medical devices sector 2021/2022



Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 17: Number of foreign investment projects in the electronics sector in the UK, 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Finally, the electronics sector in the UK, despite being some way down the list in terms of project numbers in recent years, has seen a sharp rebound from 10 projects in 2021 to 69 in 2022. This appears to be partly a correction to the norm for the UK, as the 2021 figure was unusually low compared to the rest of the decade.

Activities behind UK FDI: from selling to creating

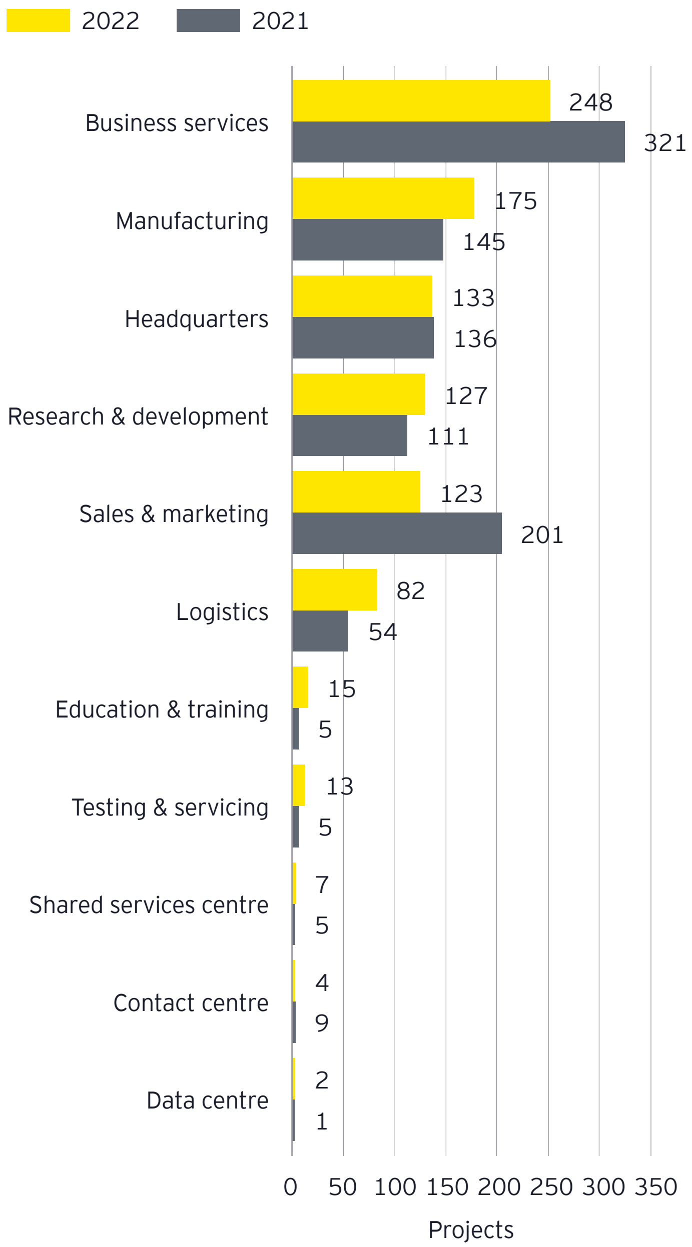
Services activity still leads in the UK, but R&D, manufacturing, and logistics are all increasing ...

In addition to logging projects by sector, we also categorise them by activity undertaken: for example, a food business may establish a HQ or a new manufacturing plant. Like the changes observed at the sectoral level, there have been clear shifts over recent years in the mix of activities to which investors commit their resources. The underlying trend in UK projects has been towards higher-value activities such as manufacturing plants, research & development (R&D) facilities, and logistics installations, with a corresponding fall in the number of business services and sales functions – although these activities are still prominent in the UK.

Positively, the UK has seen a sustained improvement in projects relating to R&D, including a rise from 111 in 2021 to 127 in 2022, an increase of 14%. In line with its overall dominance in healthcare-related projects, it may be unsurprising that the UK is also the leading European country by number of investments in R&D centres linked to pharmaceuticals and medical devices, with 28 projects in this category, well ahead of second-placed France with 15. The overall strength of R&D investment in the UK and across Europe again broadly aligns with responses to our 2023 investor survey, which indicates that 64% of executives expect to increase their European footprint in R&D over the next three years.

R&D activity represents a stream of investment that's important to both the host country and the investor for two main reasons. First, R&D-focused FDI plays a crucial role in driving innovation and technological advancement: companies investing in R&D bring new knowledge, expertise, and technologies to the host country, contributing to the development of new products, processes, and services. This can lead to productivity gains, increased competitiveness, and economic growth. R&D investments also often result in the creation of intellectual property, including patents, which can provide long-term benefits and help the host country move up the value chain.

Figure 18: Performance of leading activities for UK FDI projects, 2022 vs 2021



Source: *EY European Investment Monitor (EIM), 2021-22*

Second, by their nature, R&D activities generally require a highly-skilled workforce and create demand for specialised services and support industries. This, in turn, stimulates the growth of knowledge-intensive sectors, enhances economic resilience, and promotes a more balanced and sustainable economy. Capturing the value of these positive effects is the emerging challenging for policymakers: skills development will have to be carefully nurtured; knowledge exchange will have to be strengthened; and these R&D investments will need to help local companies integrate into global value chains and tap into international markets — where they will have to be supported in competitive fields.

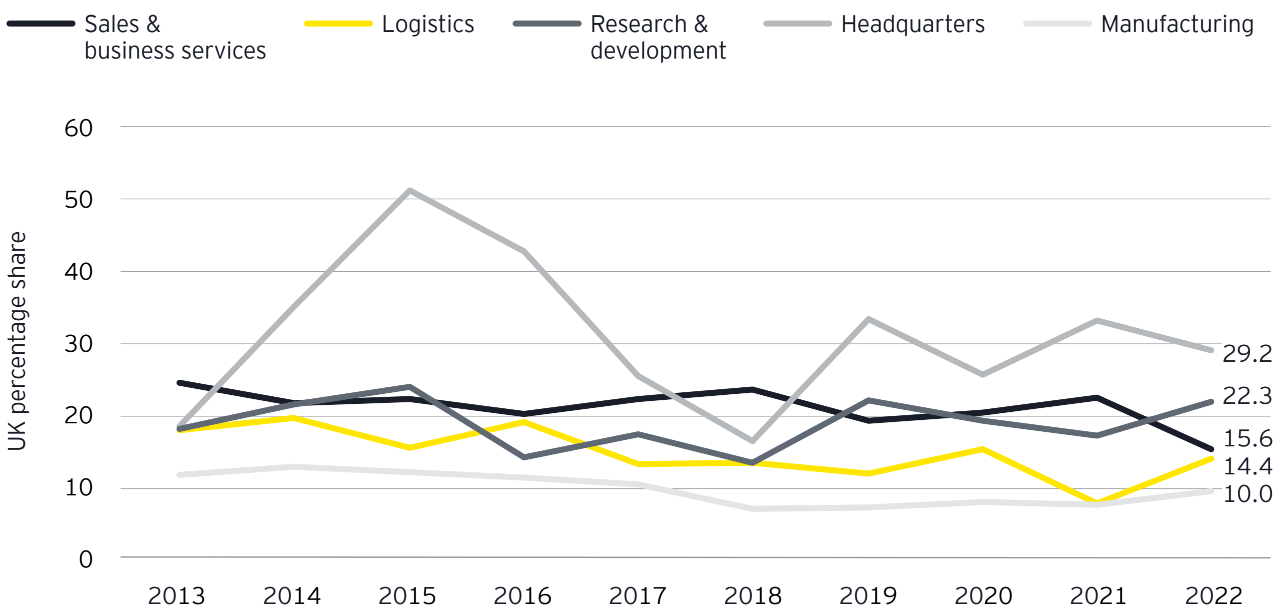
… which has resulted in the UK capturing a larger market share of these activities across Europe.

Historically, the UK has secured its highest market share of European project activities in headquarters investments. The UK's share of headquarters projects peaked at over 50% in 2015, but this was an outlier. The share of headquarters projects recorded by the UK in 2022 was 29.2%, slightly down from 2021 and close to the 10-year average of 31.2%.

In the remaining project activities, the UK has recorded variable shares of investment over the past 10 years. It recorded 22.3% of research projects in 2022 — which was above the ten-year average of 19.2% — and conversely 14.4% of logistics projects, below the 10-year average of 15.2%.

Despite the UK's total number of projects decreasing in 2022, activity increased in manufacturing (up 17%), R&D (up 13%) and logistics (up 34%), while sales (down 63%) and business services (down 30%) declined. These shifts align positively with the kinds of activity the UK is seeking to seed highly throughout its supply chains. However, policymakers will need to ensure that opportunities to capture high value-add investments further downstream are capitalised on.

Figure 19: UK's share of European FDI projects by activity, 2012-21



Source: *EY European Investment Monitor (EIM), 2013-22*

The steady increase in R&D activity is positive for seeding investment …

The early stages of developing technology and clustering R&D centres tend to create relatively small numbers of high-value jobs; but to deliver jobs at scale, the UK (and Europe more widely) also need to build those technologies further down the supply chain. There are strategic advantages in being able to do both, although financial considerations have typically propelled manufacturing projects to lower-cost countries. The UK performed strongly in R&D projects in 2022, narrowing the gap on first-placed France and attracting 22.3% of European R&D projects, above its ten-year average of 19.2%. As we've highlighted, the challenge now is to capitalise on this R&D investment by securing more future projects in activities like manufacturing.

Figure 20: Top five European countries with the most R&D projects in 2022

#	Country	Number of projects in 2022	Number of projects in 2021	Change 2021/22
1	France	144	133	8%
2	UK	127	111	14%
3	Germany	52	75	-31%
4	Portugal	39	42	-7%
5	Belgium	23	33	-30%
5	Ireland	23	15	53%
Total		**646**	**613**	**5%**

Source: *EY European Investment Monitor (EIM), 2021-22*

... while the UK needs to continue capturing manufacturing investment ...

The modest rise in all projects across Europe in 2022 was not reflected in manufacturing investments. Instead, there was a small decline in manufacturing projects from 1,769 projects in 2021 to 1,756 projects in 2022 (down by 0.7%). Despite this slight fall, the number of manufacturing projects recorded was ahead of the annual average for the decade, at 1,565. Against the background of this marginally declining European position, the UK recorded an impressive increase in manufacturing projects from 145 in 2021 to 175 in 2022, a rise of 20.7%. This UK project count of manufacturing investments was the highest since 2017, when the UK recorded 216 manufacturing projects, and its fourth highest total in the past decade.

However, while the UK performed better in securing manufacturing projects in 2022 than in the previous year, its long-term share of manufacturing FDI across Europe remains its lowest of the main project activities. Over the past 10 years the UK has recorded an average of 10.3% of manufacturing projects – and in 2022 its share was similar, at 10%. So it's important that the UK sustains the momentum from the increase in projects achieved in 2022.

... and manufacturing activity in the UK is geographically more balanced than other sectors, with recurring pockets of success ...

Within the UK, the largest regional recipient of manufacturing projects in 2022 was Scotland, and the number of projects was static at 35, remaining at the decade-high recorded in 2021. Scotland was also the leading UK recipient of manufacturing projects from a decade-long perspective – a position it held in five of the past 10 years. The second largest regional recipient of UK manufacturing projects over the decade was the West Midlands with 214 projects recorded. In 2022, however, the region was ranked joint third despite increasing its project count by 26.7%. The second-placed region for manufacturing projects in 2022 was North East England, as it was in 2021. The North East recorded 20 projects in 2022, an increase of 17.6% on the previous year.

The modest rise in all projects across Europe in 2022 was not reflected in manufacturing investments.

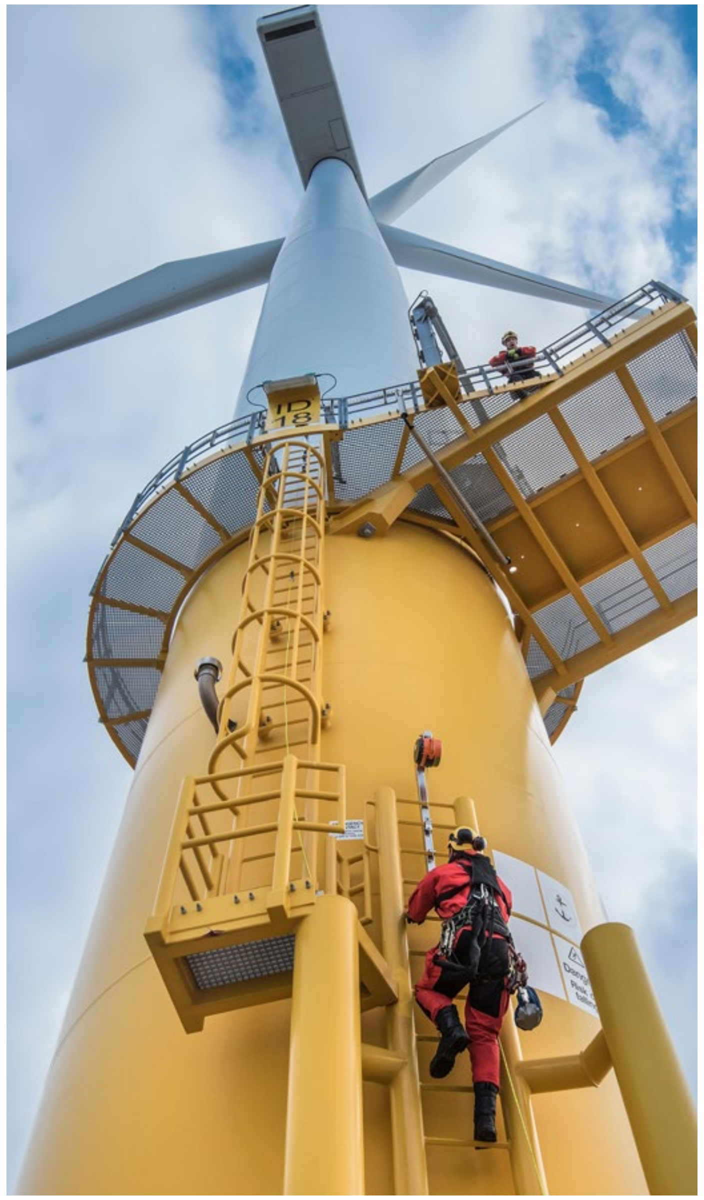


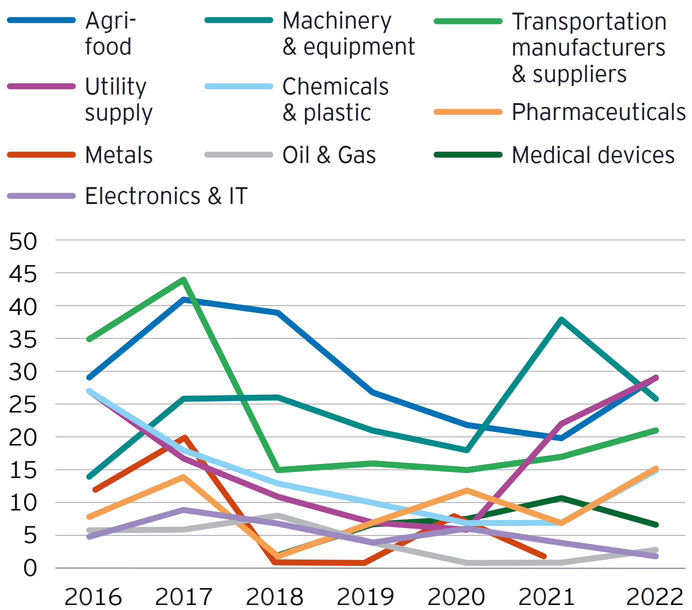
Figure 21: Manufacturing projects into UK regions and devolved administrations 2013-2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Scotland	15	31	22	24	30	25	32	17	35	35
North East England	18	13	18	25	14	11	9	9	17	20
North West England	11	13	20	12	23	13	14	18	12	19
Wales	13	21	17	19	13	14	5	10	9	19
West Midlands	18	30	38	23	31	17	12	11	15	19
South East England	7	13	13	11	14	10	6	7	5	16
East Midlands	8	6	8	8	17	11	11	9	12	15
Yorkshire and the Humber	9	12	27	32	38	14	14	11	11	12
Northern Ireland	12	10	2	7	5	3	2	3	10	7
South West England	5	7	9	9	21	13	7	6	9	6
East of England	4	4	5	7	9	7	7	6	8	4
Greater London	4	5	4	7	1	2	13	5	2	3
Grand total	**124**	**165**	**183**	**184**	**216**	**140**	**132**	**112**	**145**	**175**

Source: *EY European Investment Monitor (EIM), 2013-22*

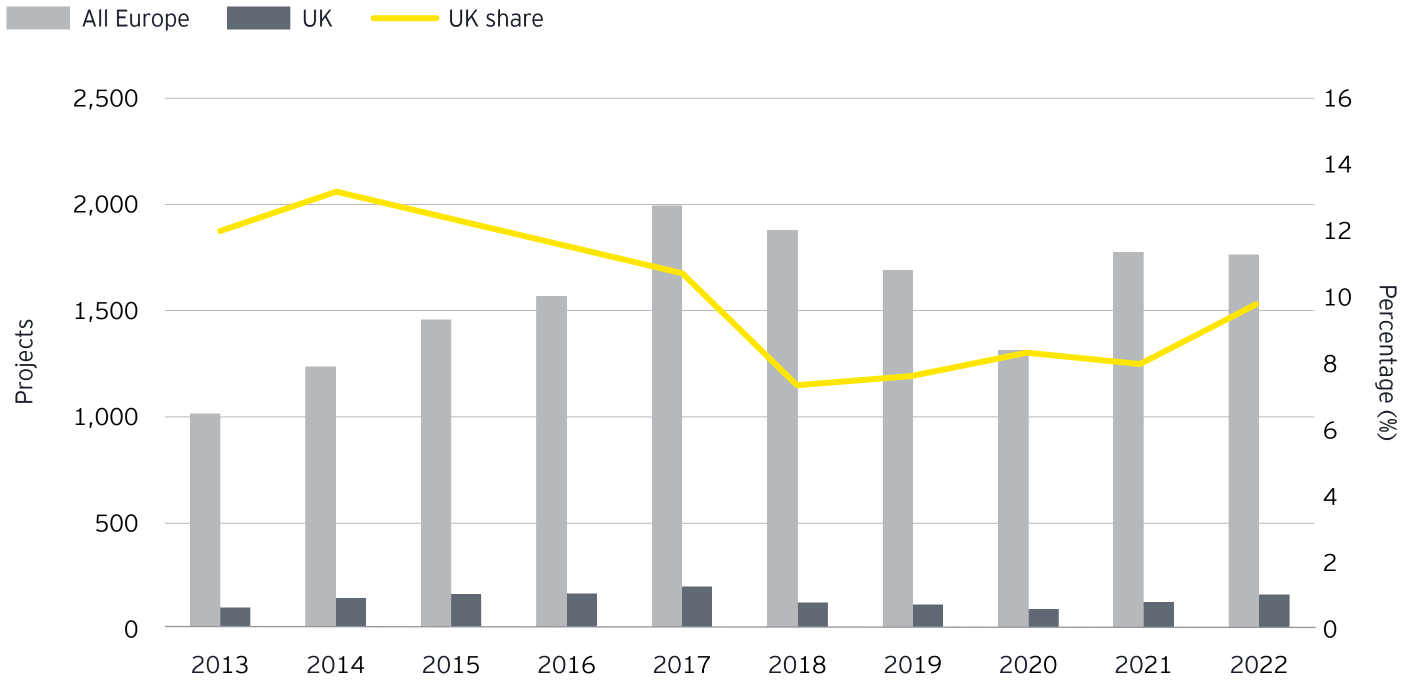
Within the UK market, manufacturing has undoubtedly faced a challenging regulatory and political landscape in recent years with a high degree of uncertainty. Against this background, it's interesting to observe which sectors have seen a decline or increase in manufacturing activity. Among the top sectors, a clear shift in manufacturing activity can be seen: previously dominant manufacturing activity in transportation (at 44 manufacturing projects in 2017) initially saw a decline followed by a steady recovery in the past three years. Meanwhile, manufacturing projects in sectors such as pharmaceuticals, agri-food, and utility supply (including renewables) have seen large gains in the past three years. This evolution of manufacturing activity over time may be less of a two-dimensional impact of Brexit, and more of a reflection on sectors where especially high levels of uncertainty have dissuaded companies from investing.

Figure 22: Number of manufacturing activity projects by sector, 2016-2022



Source: *EY European Investment Monitor (EIM), 2016-22*

Figure 23: Manufacturing projects and UK market share 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

The UK also saw a jump in manufacturing activity this year ...

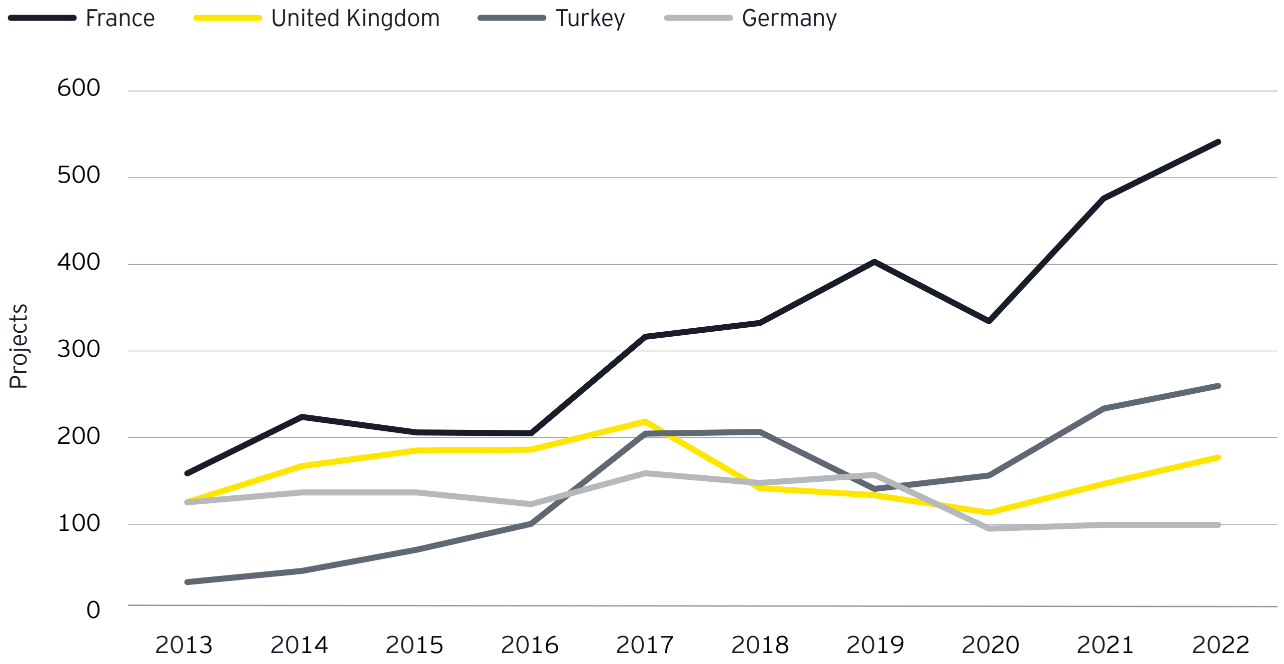
The 20.7%. rise in UK manufacturing projects in 2022 is clearly a positive development. And while the UK's 10% share of manufacturing projects in Europe may appear low, this is largely because manufacturing activity is highly diffused across European countries. In fact, only France and Turkey reporting higher shares of manufacturing activity than the UK, at 13% and 12% respectively. However, if the UK is to fully realise the opportunities that manufacturing creates – and is to build the industrial capacity it needs to reach net zero – its proportion of projects needs to be higher.

Figure 24: Top five European countries with the most manufacturing projects in 2022

#	Country	Number of projects in 2022	Number of projects in 2021	Change 2021/2022
1	France	547	482	**13%**
2	Turkey	257	230	**12%**
3	UK	175	145	**21%**
4	Germany	106	106	**0%**
5	Poland	81	104	**-22%**
	European total	**1,756**	**1,769**	**-1%**

Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 25: Leading country destinations of manufacturing projects 2013-2022

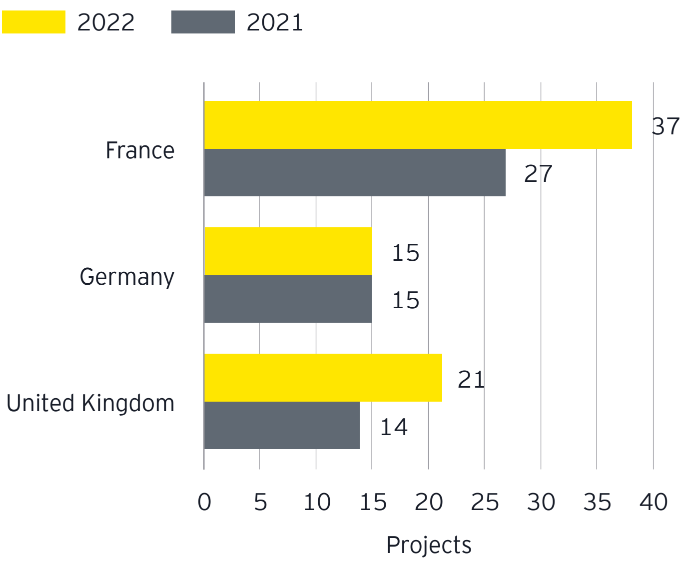


Source: *EY European Investment Monitor (EIM), 2013-22*

... but the UK is performing well in advanced manufacturing and mobility R&D

Attracting investments in R&D activity is equally key. In this context, the UK, France and Germany together accounted for more than half (56%) of foreign investment in R&D centres in Europe in 2022. When this share is broken down further, we find it is significantly higher for projects carried out by the industrial sector – for example, 70% for the advanced manufacturing and mobility (AMM) industry's R&D centres – which tend to be more technology-intensive. The UK and France both performed well in 2022, with France leading AMM R&D activity with 37 projects and the UK second with 21. Meanwhile, Germany retained a similar level of projects to the previous year.

Figure 26: Number of foreign investment projects in R&D centres within advanced manufacturing and mobility, 2021-2022

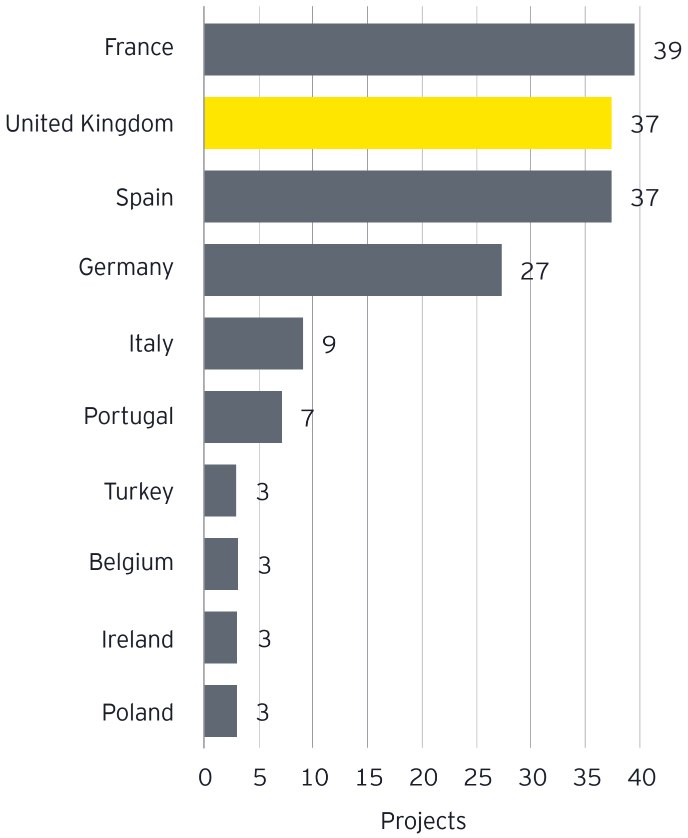


Source: *EY European Investment Monitor (EIM), 2021-22*

The UK ranks highly for renewables and sustainability and is perceived as a leader in this area ...

As we noted earlier, the UK secured 37 investment projects in the renewable energy sector in 2022, putting it joint second in Europe alongside Spain. While this is a real boost to the UK's green credentials, there are some more detailed figures for policymakers to pick over. For instance, in 2022 the UK secured only four industrial projects in the automotive and aerospace sectors that were linked to low-carbon mobility (19% of the UK's total industrial projects). By comparison, Germany secured eight such projects (67% of its total industrial projects) and Spain 12 (also 67% of its total industrial projects).

Figure 27: Number of foreign investment projects in the renewable energy sector in the top 10 FDI destinations in Europe in 2022



Source: *EY European Investment Monitor (EIM), 2022*

The UK secured 37 investment projects in the renewable energy sector in 2022.

... and there are some notable competitive factors for UK policymakers to note, driven by external forces such as the US Inflation Reduction Act

While the UK ranks relatively highly – in fourth place – in the race for semiconductor capability, the UK's share of European projects in this space is quite small, with its three projects recorded in 2022 accounting for just 10% of the European total of 29. By contrast, both Germany and France led the pack in 2022 with seven projects each. At the same time, there's a clear risk that foreign multinationals will not significantly increase their manufacturing footprint in Europe, with the appetite to establish production facilities in Europe being limited by high costs, challenges with the energy mix, and the lure of the US's Inflation Reduction Act.

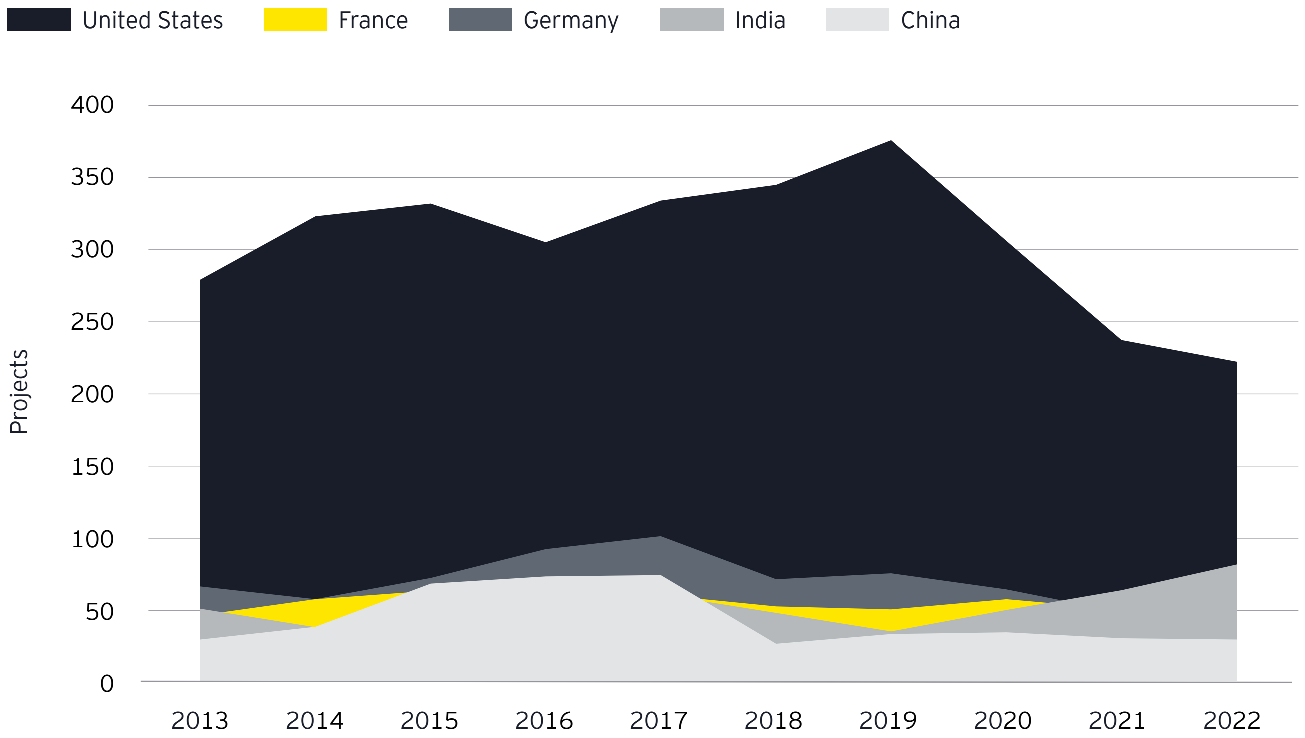
Overall, Europe's energy crisis triggered by the conflict in Ukraine has added to the financial pressures on investors. As a result, they may seek greater certainty from financial strength and larger, more stable markets.

Origins of investment into the UK: the US still leads, but India is rising

The US remains the UK's biggest investor, with India moving up to second place – and strong project flows from other Commonwealth countries ...

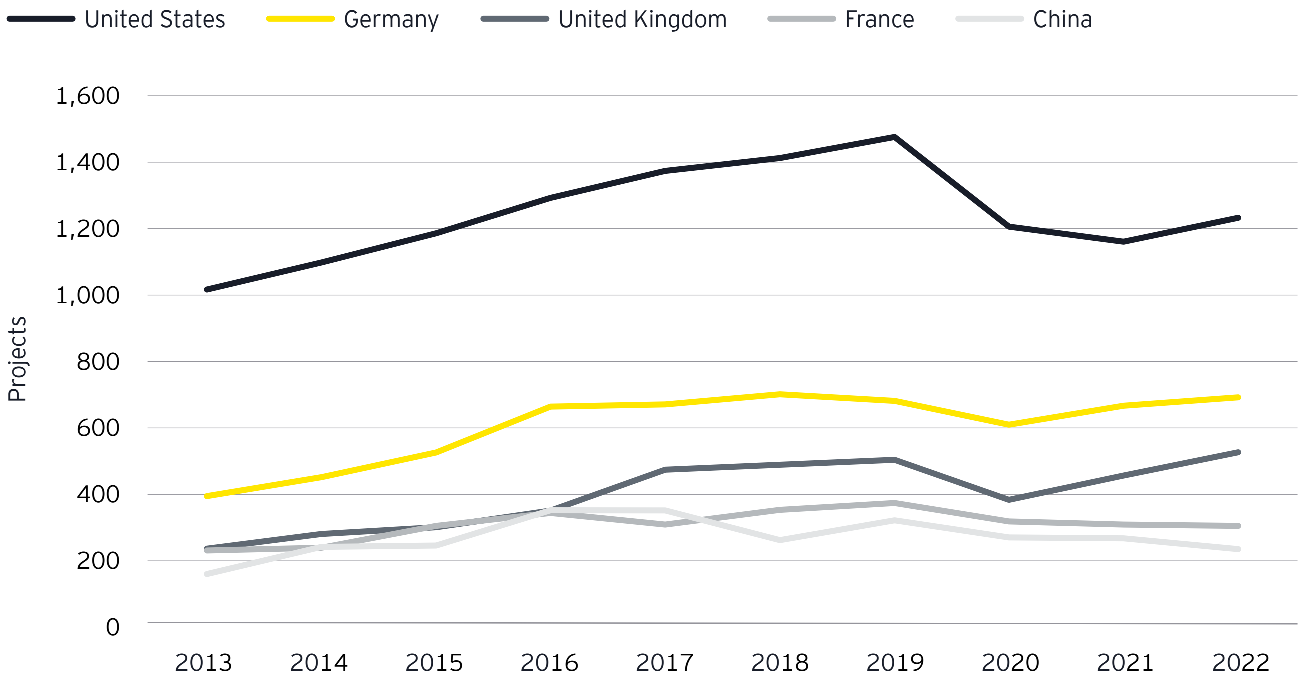
The top five countries investing in the UK in 2022 were the United States (with 222 projects), India (82), Germany (58), France (43), and the Netherlands (39). This ranking continued the previous year's trend of India unseating Germany as the UK's second biggest investor.

Figure 28: UK project count over the past decade of the top five countries of origin into the UK in 2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 29: Top five leading countries of origin into Europe over the past decade – time series analysis 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

At a European level, 60% of FDI projects in Europe originate from European-based companies, followed by investors from the US at 21%. The US remains the leading origin of projects both into the UK and into Europe as a whole – a position it has held in in every year since the EIM data was first recorded.

60%

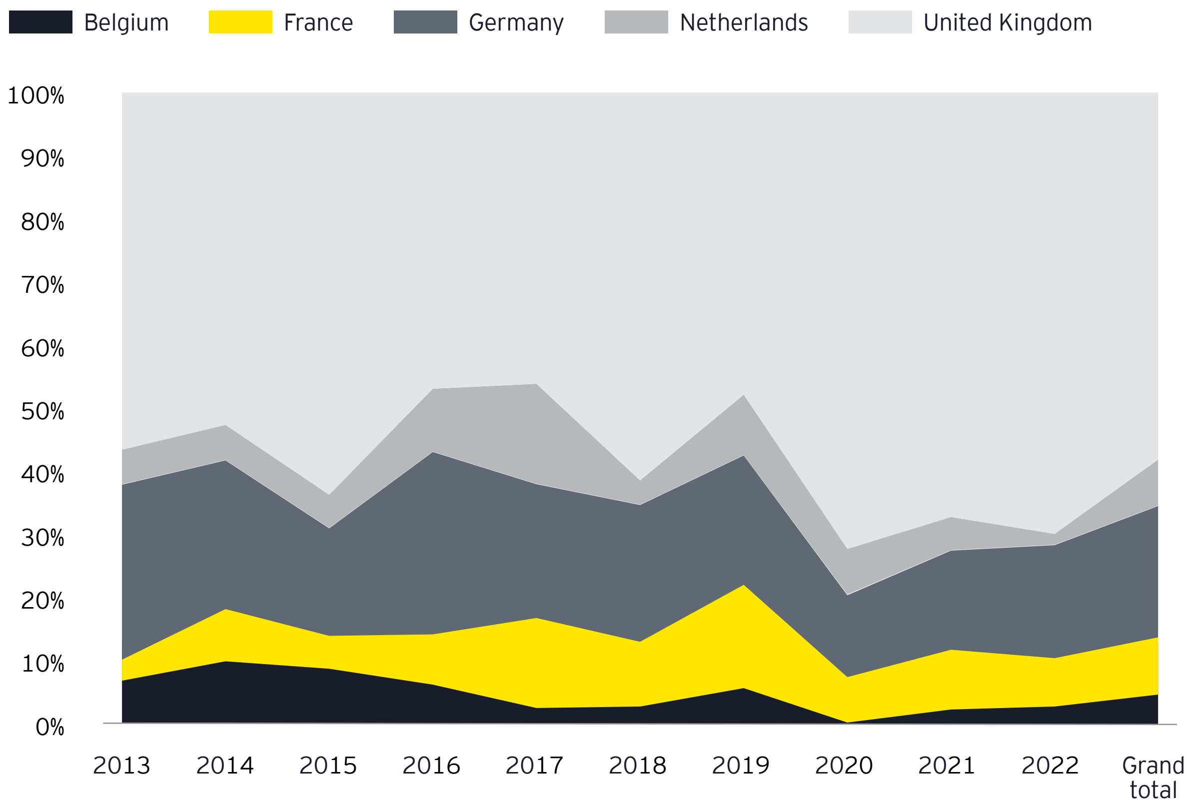
of FDI projects in Europe originate from European-based companies.

Also, in keeping with previous years, the US is a larger proportionate investor into the UK than into Europe as a whole. The UK secured 23.9% of its investment projects from the US in 2022 — the same proportion as in 2021. Across Europe, US projects accounted for 20.8% of investments, a slight increase from 19.9% in 2021. However, US investment into the UK (and by extension Europe) has been impacted in recent years by several geopolitical and geo-economic shifts in policy — much of which we are seeing filter through in FDI activity and our investor survey. While there is no doubt that the war in Ukraine is having a significant impact on US perceptions of investing in Europe, political uncertainty in the form of protests and strikes across European numerous countries could also be a factor. More broadly, US economic and trade policy may be seeing the impact of a push for more domestically fuelled industries and the high level of subsidies and incentives being put forward by the Inflation Reduction Act (IRA).

Meanwhile, the rise of Indian investment in the UK is a real success story, even relative to other European countries. In 2022, Indian-originated projects accounted for 8.8% of UK inbound projects, and the UK secured 58.2% of all Indian investment projects into Europe, up from 51.2% in 2021. This project contribution made India the UK's second biggest origin of projects after the US. By contrast, the second biggest origin of FDI projects across Europe was Germany, with 11.5% of the European total.

However, there are some lessons to be gleaned from the patterns of Indian investment into the UK, providing valuable insights into how it might be amplified further. For example, it's clear that Indian investors strongly favour London as a location to invest, with 42 of their 82 projects in 2022 landing in the capital. Yet the same year saw significant gains in regions such as the West Midlands, where Indian projects jumped from four in 2021 to 10 in 2022.

Figure 30: Top five destinations for Indian investment by market share into Europe, 2013-2022

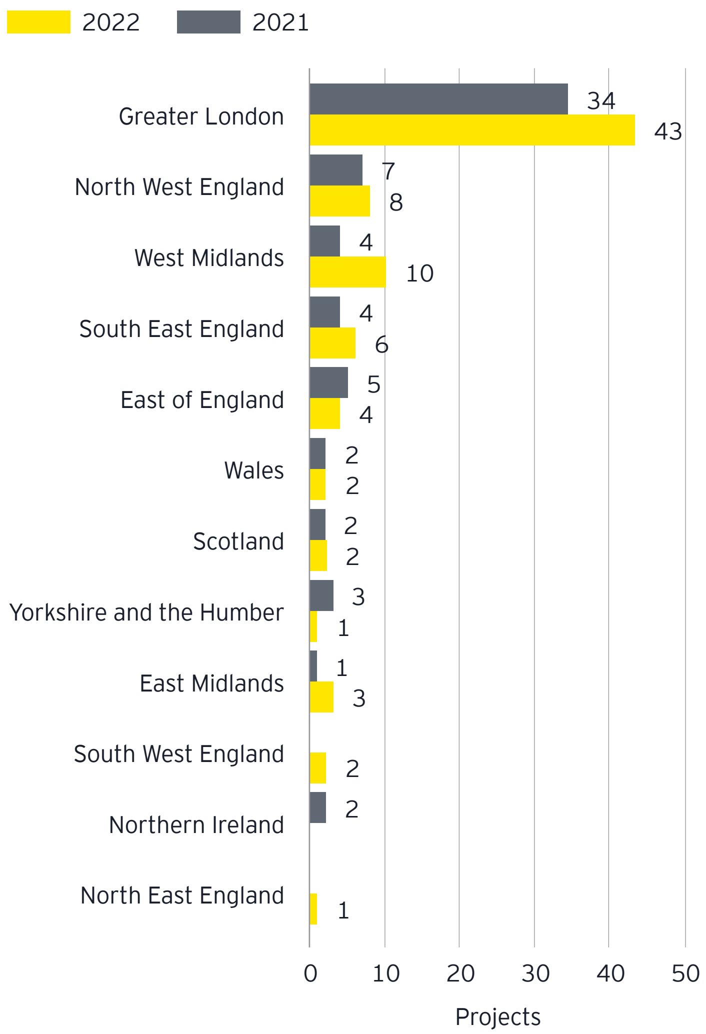


Source: *EY European Investment Monitor (EIM), 2013-22*

Figuring out what drives an increase of this scale will be of interest to many local authorities.

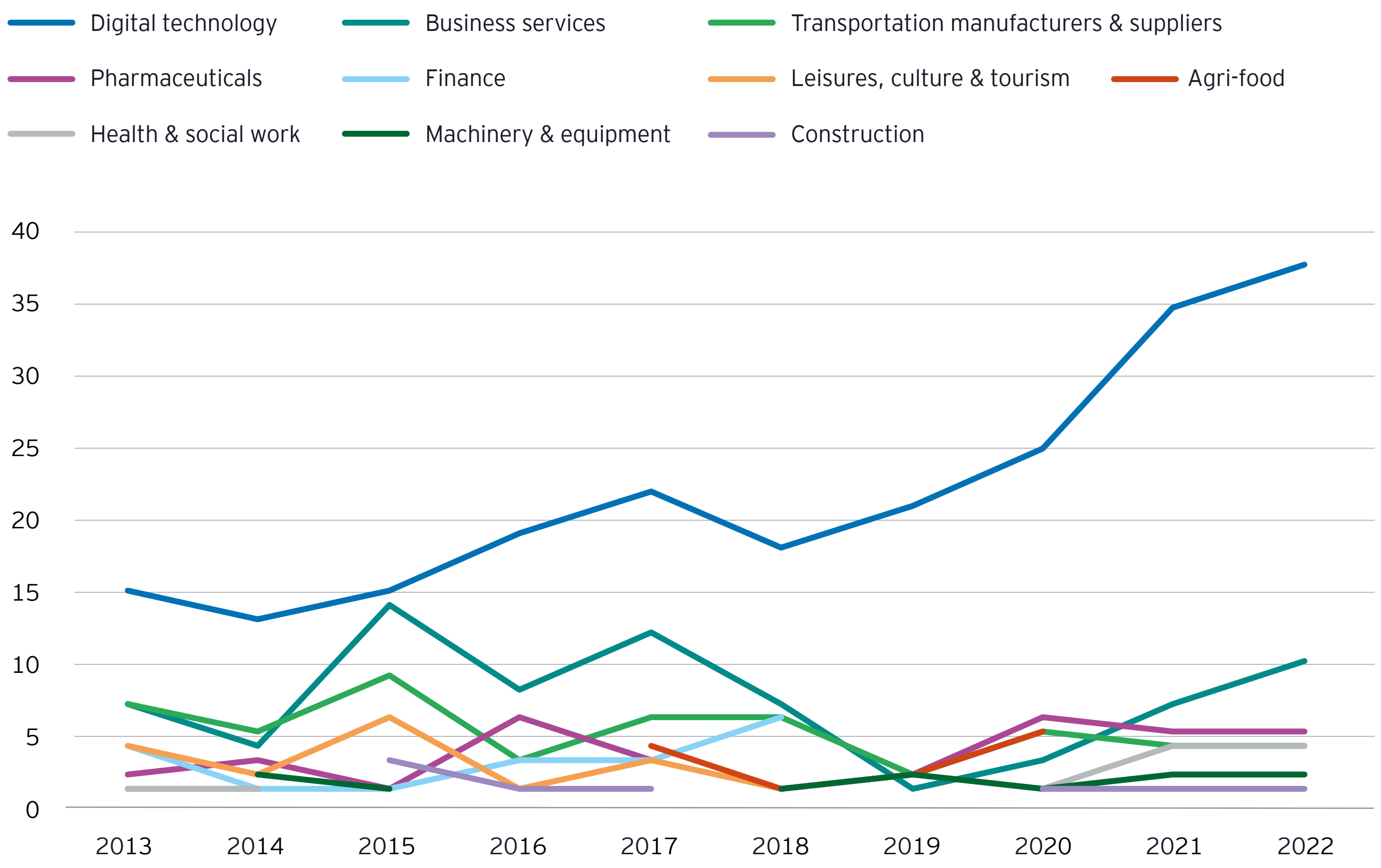
An analysis of Indian FDI through a sectoral lens is equally informative. Digital investments in the UK by Indian companies have been on a linear upward trend for the past decade, accounting for 38 of the 82 Indian projects secured in 2022. If the pandemic years are excluded, sectors such as business services look to be positively trending in the right direction. But understanding how traditional sectoral strengths for the UK — such as finance — can better attract Indian investment should also be a focus for policymakers.

Figure 31: Indian investment by UK region, 2021-2022



Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 32: Indian investment in the UK by sector, 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

As the UK seeks to broaden its trading ties with other major multilateral trading blocs post-Brexit – witness the recent enactment of new trade deals with Australia and New Zealand, and the Comprehensive Economic Partnership Agreement signed with Japan in 2020 – it's noteworthy that the UK's leading ten sources of FDI projects in 2022 included five countries from outside Europe. This leading grouping includes Australia and Canada as well as India, and the Commonwealth continues to be an important source of UK projects. In 2022 the UK secured 50% of all Australian investment projects into Europe and 24.7% of all Canadian projects into Europe.

An analysis of investment projects into the UK over the past 10 years shows that China is still ranked as a top five origin of over the whole period, despite not having been ranked in the top five origins for the last five years. This may be partially due to the pandemic and acute supply chain crisis. But the trend may be further complicated by geopolitical risks of decoupling, reshoring, and major market interventions such as the US Inflation Reduction Act.

With the new trade agreements mentioned above already in place, a key question for the UK going forward is where else it can go for trade deals. Obvious candidates include regions such as the Middle East. As US and EU investment declines, it's important for the UK to give more countries around the world a reason to choose the UK as an investment location.

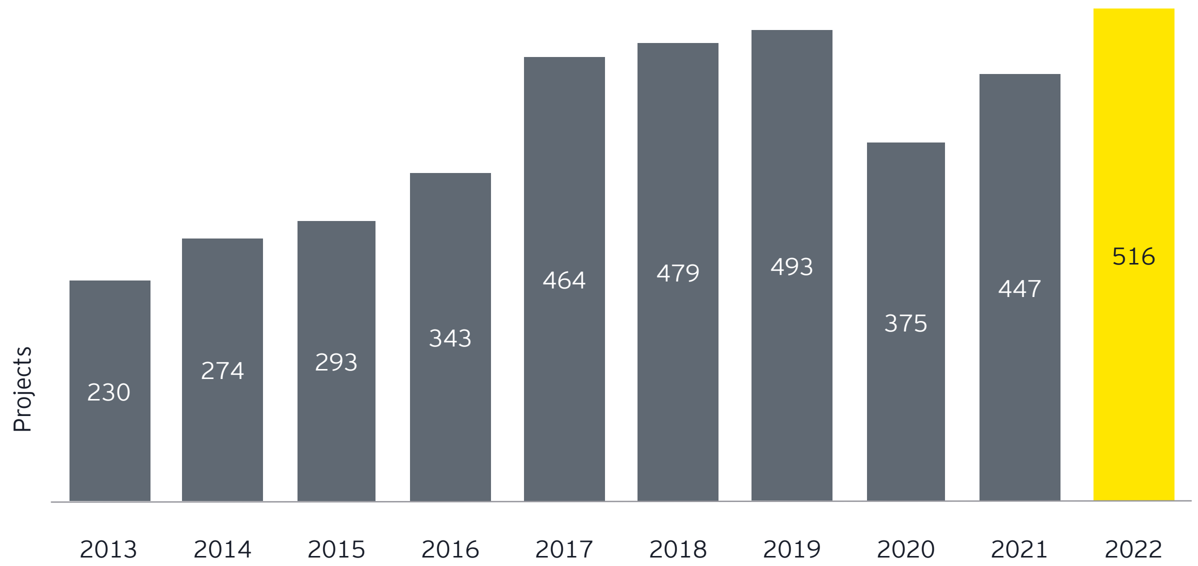
… while rising UK outbound investment signals UK businesses investing significantly in Europe.

The UK was the third largest source of investment projects into Europe in 2022, as the number of outbound projects from the UK rose to an all-time high. Outbound projects from the UK jumped initially after the Brexit referendum, and have increased in each year since apart from the pandemic-affected year of 2020.

In 2022, outbound projects from the UK increased by 15.4% from 447 projects recorded in 2021 to 516 in 2022. The number of outbound project investments from the UK in 2022 was more than double that recorded 10 years ago (124.3% higher), when only 230 outbound projects were recorded. The rise in 2022 means UK-originated projects represented 8.7% of European projects during the year, up from 7.6% in 2021.

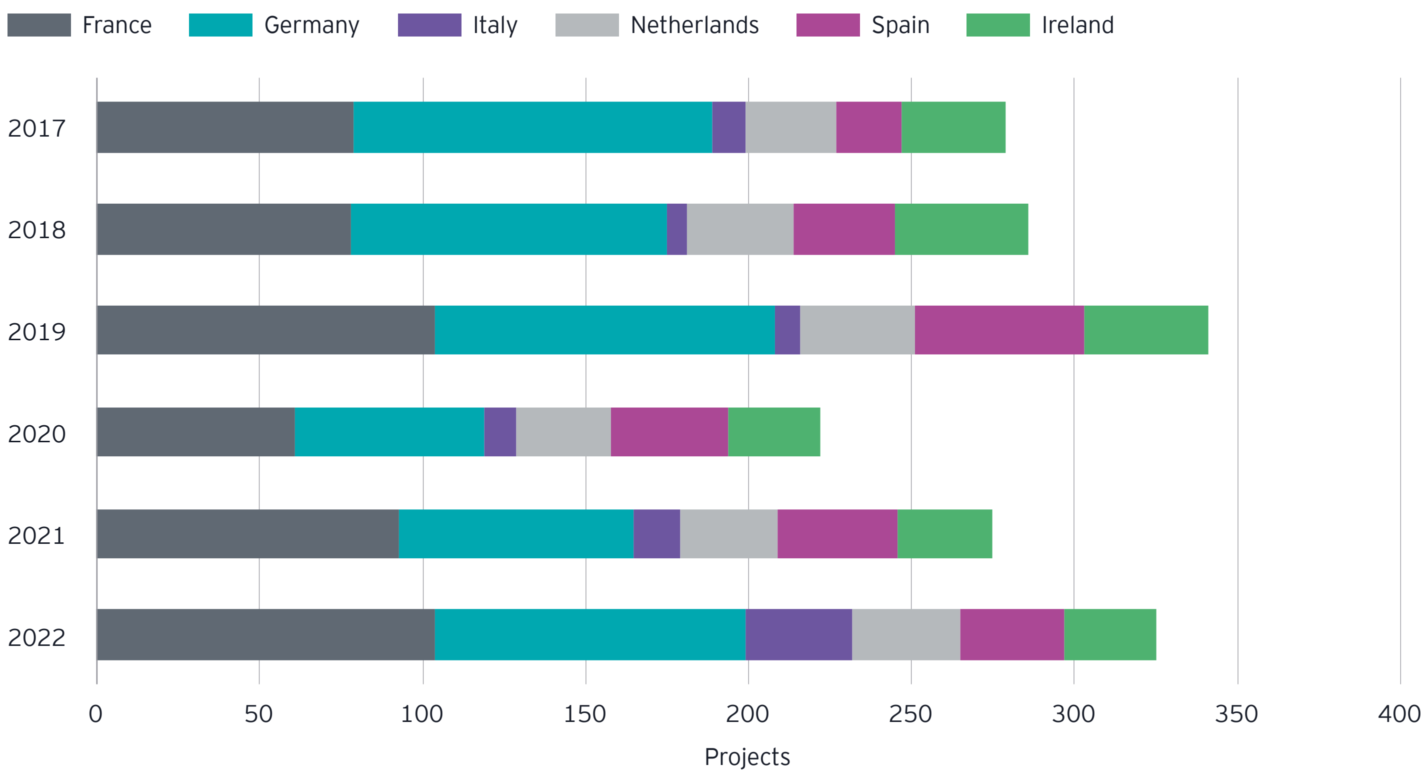
Germany and France have been the leading destinations for UK outbound investment in every year since 2017 – with France recording more UK-originated projects than Germany in each of the past three years. Both France and Germany recorded more than twice as many projects from the UK as any other European country in 2022, and together they attracted 38.6% of all UK outbound investment projects.

Figure 33: Number of UK outbound projects 2013-2022



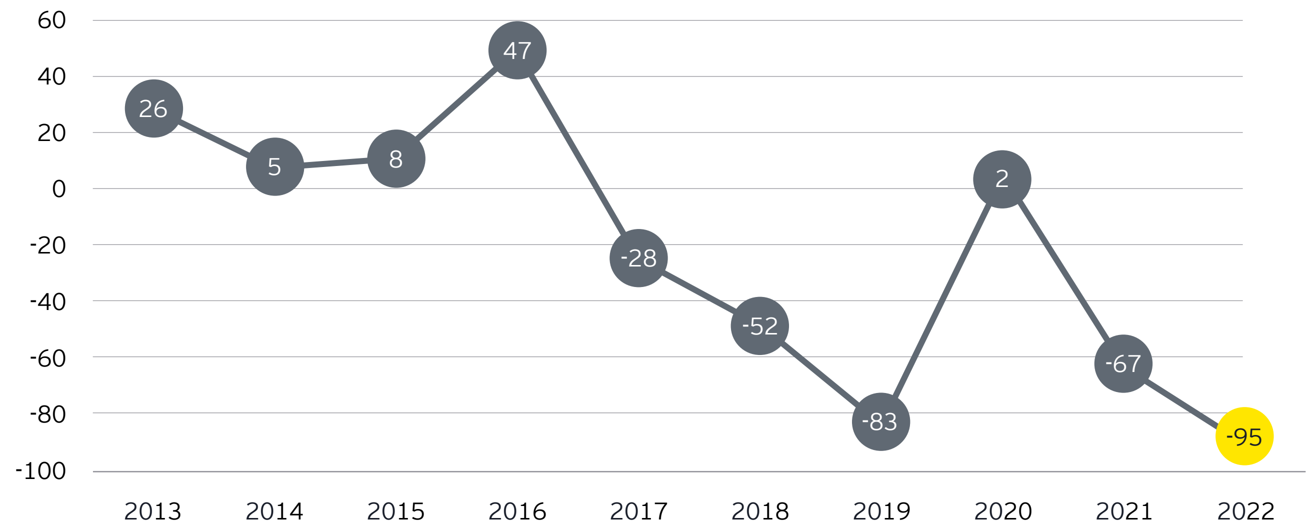
Source: *EY European Investment Monitor (EIM), 2013-22*

Figure 34: Destination of UK outbound investment 2017-2022



Source: *EY European Investment Monitor (EIM), 2017-22*

Figure 35: Net direction of German and French project investments into UK compared to the reverse direction 2013-2022 (negative is net outbound)



Source: *EY European Investment Monitor (EIM), 2013-22*

The figures for 2022 show that UK businesses undertook more investment projects in Germany (95 projects) than German companies undertook in the UK (61 projects). The imbalance was even more pronounced in France, where UK businesses undertook 104 projects while French businesses invested in just 43 projects in the UK. This position represents a significant shift, as the graph below shows. From 2017 onwards, UK businesses have made more project investments in France and Germany than vice versa. Prior to 2017 this was not the case. While this shift is probably a consequence of the UK withdrawal from the European Union and an adjustment to new trading rules and regulations, there may be some upside for the balance of payments, which sees an increase in capital flows back to the UK where the UK has traditionally been a net investor overseas.

Summary: the UK marketplace is pivoting towards strategic investment

Our analysis indicates that the UK FDI market is undergoing several shifts in strategic investment. Although the UK has performed largely in line with expectations in its traditionally strong sectors such as digital, finance, and business services, the data on the activities driving investment tells a different story. There is a move away from activity being dominated by sales & marketing and towards R&D, manufacturing, and logistics. The UK's strong R&D performance, alongside the rise in manufacturing projects, represents a trend that policymakers will want to continue in tandem – as capturing both will be at the heart of high-value project flows in a market experiencing significant disruption from major government subsidy policies in various parts of the world. While we need to be careful about drawing firm long-term conclusions as major policy decisions continue to evolve both in Europe and UK, it does appear the market is changing. We will explore the direction of travel in more detail later in this report, drawing on our global survey of executives.

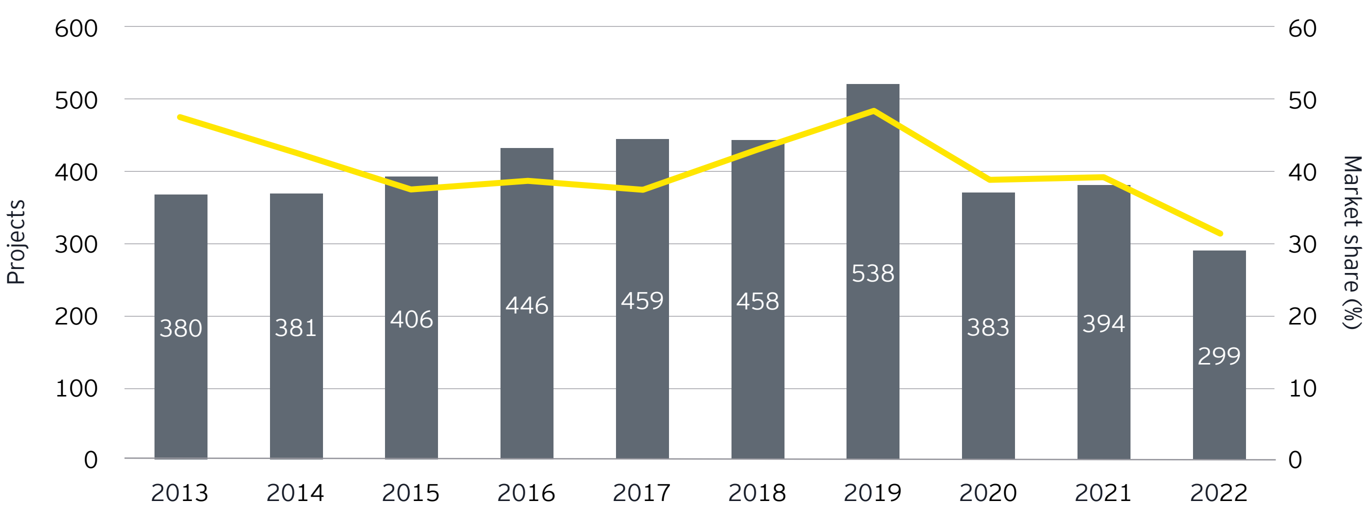
UK regional performance: levelling-up in FDI gains momentum

Surprisingly, London records a drop in projects – but it still leads the UK, with non-digital investments similar to the previous year ...

In 2022 there were 299 projects recorded in Greater London, a decrease of 24.1% from 2021 when the UK capital secured 394 projects. An analysis of the destination of all UK projects confirms that London remains the pre-eminent location, a position it has held for the past decade and more. To put this in context, in 2022 Greater London secured more projects on its own than all but four European countries – France, Germany, Spain, and Turkey. However, the share of UK projects locating in London has been on a generally downward trend since 2019. The 32.2% share of UK projects that London secured in 2022 was its lowest in the past decade – and well below its average share of 40.9% during that period.

The surprise drop in investment projects into London may have been a result of London being disproportionally hit by travel bans and a lingering COVID-19 overhang – particularly as many larger projects see a lag from initial investment to operational delivery. It's very plausible that we will see a recovery in investments into London in the coming years, particularly taking into account the sectoral concentration in tech projects in 2022. As noted elsewhere in this report, London has maintained the same levels of job creation and capital expenditure, so a decline in volume may not necessarily mean a decline in investment value.

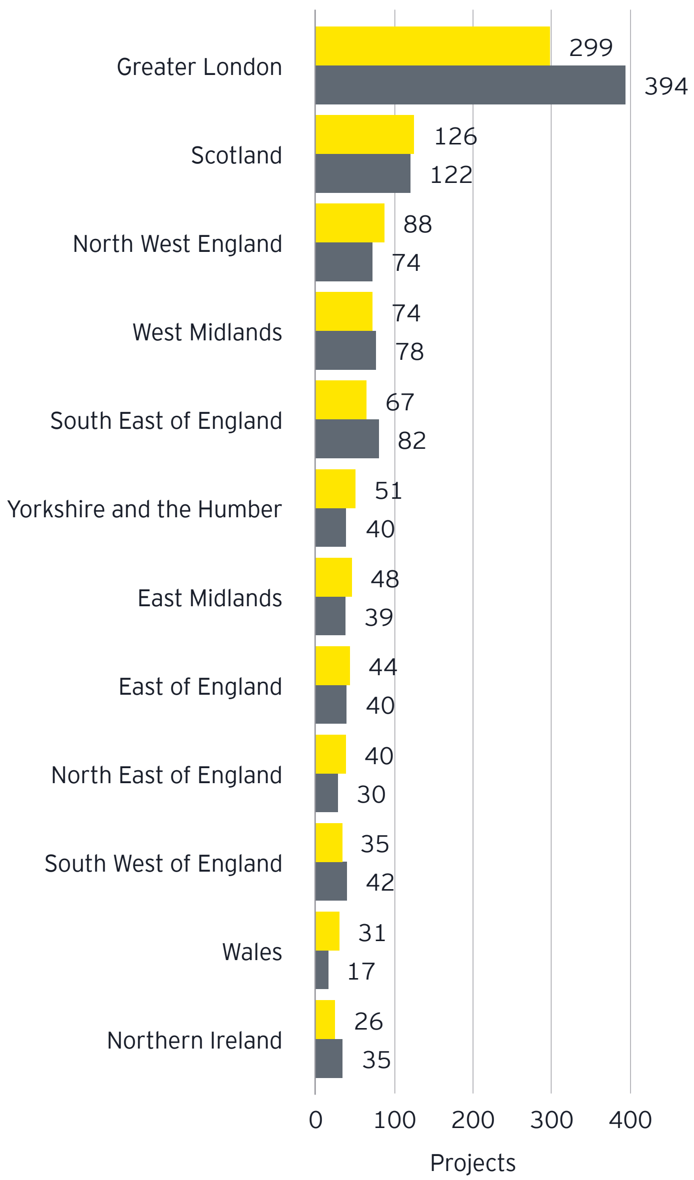
Figure 36: London projects and market share of all UK projects 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

With projects in London slipping back, most other parts of the UK gained ground on it by increasing their project numbers. Seven of the eleven UK regions or countries outside London recorded increases in 2022. We take a closer look at the regional findings later in this section.

Figure 37: Projects across all UK regions, 2021-2022



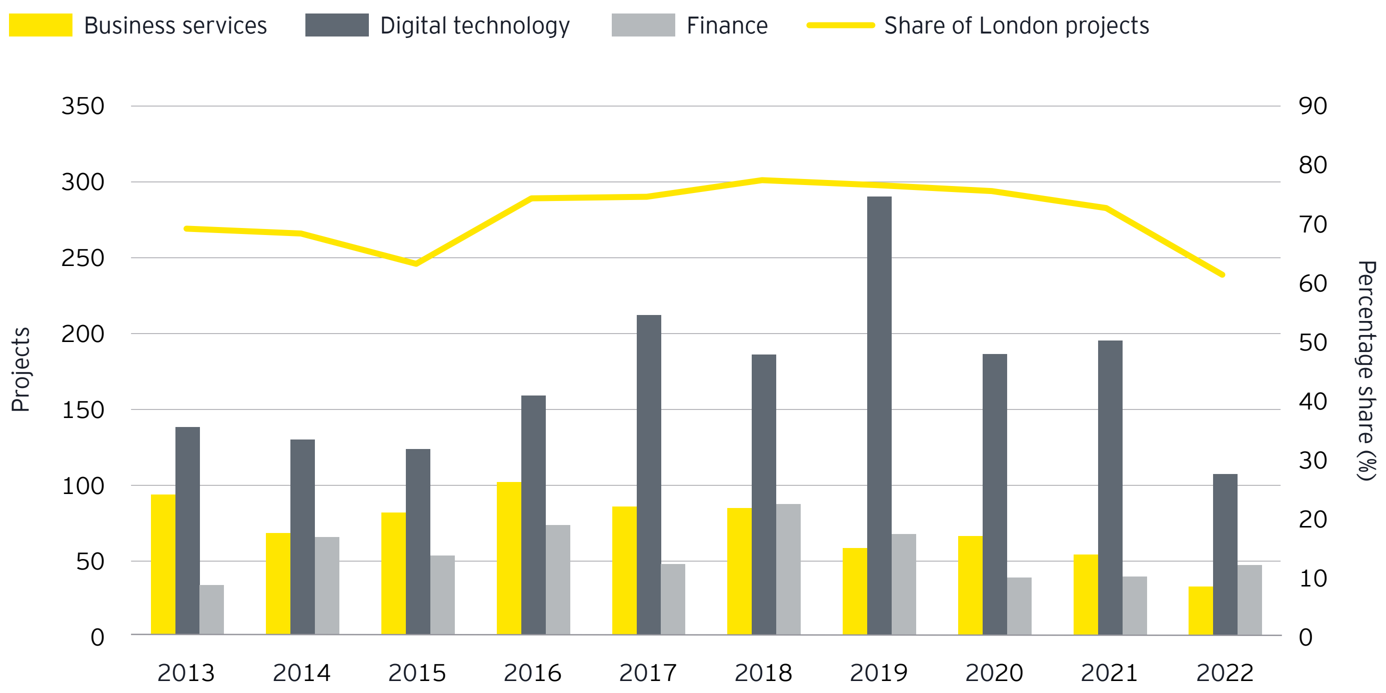
Source: *EY European Investment Monitor (EIM), 2021-22*

In terms of London's sector performance, the number of digital technology projects secured in the capital plunged from 194 in 2021 to 107 in 2022 – a drop of 44.9%. However, despite the decline, total tech sector spend on investments in London was up by over £300m.[2] While technology companies are facing many sector-specific issues globally, London remains dominant by market share both within the UK and as the leading European city for projects in this sector.

Turning to FDI employment, projects locating in London in 2022 announced 9,489 jobs, a figure that was down by 40% on the previous year, but 52.7% higher than the second-placed region of the West Midlands. It's worth noting that London had a single large project in 2021 that created 4,000 jobs, skewing the comparison with 2022. Stripping out the effect of this project, the London digital technology sector recorded 37 jobs per project in 2021 versus 36 jobs per project in 2022, suggesting that the value gained from job creation by the sector's FDI is still sitting at about the same level.

> Digital technology projects secured in the capital plunged from 194 in 2021 to 107 in 2022.

Figure 38: Projects into London recorded by digital technology, business services and finance 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

[2] The associated capital investment is not always identifiable, so this report does not emphasise capital expenditure as one of the key metrics, but where a year-on-year decline is observed in projects or job announcements – it is worth noting that capex is significantly higher, therefore a more complex investment picture may sit behind the projects.

In the years ahead, it seems unlikely that there will be an immediate rebound in tech investment across Europe and in the UK to the levels observed in 2018 and 2019. As it stands, those years represented the high point of tech investment in the past decade. It's possible that the rising mobility of workers could result in a one-off decline in the skilled labour force, and companies may be cautious about reinvesting quickly until economic risks dissipate.

Additionally, it does not appear that Greater London is losing digital technology projects to any competing destination in particular. Rather, it seems that 2022 was a year in which the sector decided that the larger and more dominant digital locations – with the exception of Berlin – were not necessarily the best choice of investment destination. Portugal was a beneficiary of this trend, with Lisbon and Porto both increasing their digital project numbers. As a result, both cities were ranked in the top five in Europe for digital technology investment in 2022.

As these shifts indicate, London remains the pre-eminent location of choice for digital investment and others may more accurately be described as catching up. The question for policymakers with a focus on the capital now turns to how this digital crown can be retained and what policy levers can be pulled to maintain London's competitive edge. Given the current economic climate, the search for solutions may focus on policy areas that do not cost large amounts of money: namely, improving the competitiveness of the regulatory environment in a sector that consistently places a high importance on this issue in our investor survey. A regulatory environment that is assertively open to innovation and allows technological innovation to flourish while providing the necessary capital and funding will be crucial to maintaining the capital's top spot in digital FDI.

Figure 39: Average jobs announced per project in London digital sector (excl. major outliers)

Source: *EY European Investment Monitor (EIM), 2021-22*

Figure 40: The 10 leading cities for digital technology investment in 2022 and their year-on-year performance

Rank 2022	City	2021	2022	% Change
1	London	195	108	-44.6
2	Berlin	31	75	141.9
3	Lisbon	47	56	19.1
4	Paris	48	46	-4.2
5	Porto	10	29	190.0
6	München	42	28	-33.3
7	Dublin	28	26	-7.1
=8	Madrid	36	20	-44.4
=8	Milan	21	20	-4.8
=10	Barcelona	21	18	-14.3
=10	Edinburgh	17	18	5.9

Source: *EY European Investment Monitor (EIM), 2021-22*

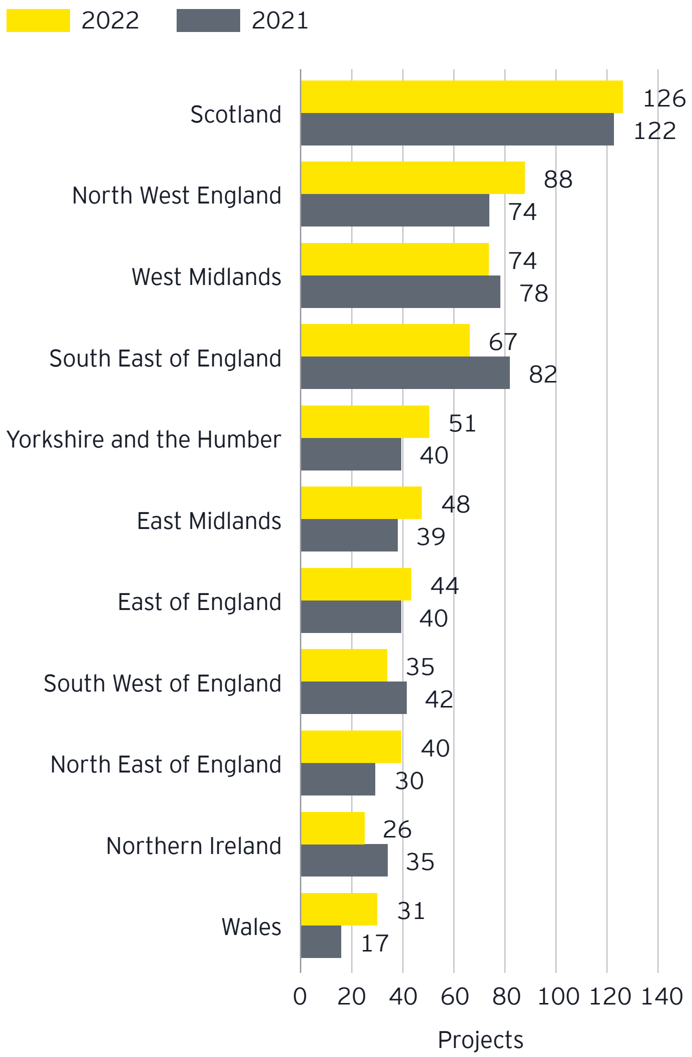
... but most UK regions have narrowed the gap on London, by achieving year-on-year increases in projects

A common question is whether there is evidence of 'levelling up' in terms of inward investment. To judge from the 2022 FDI figures for UK's regions and devolved administrations outside of London, the answer is that this is arguably the case. Seven of the 11 UK 'regions' outside of London saw their total FDI projects rise in 2022, with Wales (82%), North East England (33%), Yorkshire and the Humber (28%) East Midlands (23%), North West England (19%), East of England (10%), and Scotland (3%) all recording increases. This seems to indicate that despite a fall in projects for the UK overall, the regions outside the capital have fared comparatively well.

In common with recent years, Scotland has retained second place after London, and the third-placed destination after Scotland has changed. In 2022, North West England was placed third, a position that has previously been claimed by South East England and the West Midlands in the past decade. Meanwhile, the 26 projects secured by Northern Ireland in 2022 was the lowest by any area of the UK and Northern Ireland's lowest project total in the decade.

In terms of the changes recorded in 2022 compared to 2021, the most rapid decline was also recorded by Northern Ireland (a 25.7% reduction in projects), while the fastest increase was recorded by Wales. We delve into what is driving investment decision-making in the next section, where the survey results show that geographical imbalance is one of the biggest factors considered by executives when it comes to investing in the UK.

Figure 41: FDI projects into the UK outside London, 2021-2022



Source: *EY European Investment Monitor (EIM)*, 2021-22

Cities outside London: Manchester and Edinburgh continue to lead the way, recording their highest levels of investment since 2018 despite the UK's overall decline

After London, the most successful UK cities in securing FDI projects tend to change from year to year. Looking at total projects over the past five years, Manchester has been the leading city (outside London), and it was the outright leading city in 2022 for the first time since 2019. A very successful year for Manchester's saw its projects rise from 31 in 2021 to 45 in 2022, an impressive rise of 45.2%.

Edinburgh, which increased its project count by seven projects (or 22.6%) to 38, is the only other UK city to have recorded more than 30 projects in each of the past three years. Strong growth was also recorded by Birmingham, which ranks third both for 2022 and for the past five years in total. The city increased its project count by 11 (or 64.7%) in 2022, the year in which it hosted the Commonwealth Games.

The success of most cities in the ranking seems to be driven either by an existing diverse sectoral base or a success in embracing digital investment. Manchester, Edinburgh, and Belfast are especially strong in securing digital projects, while Birmingham and Glasgow seem to attract investment interest from a broader spread of sectors.

Figure 42: 20 largest UK city recipients of investment (excluding London) 2018-2022

Rank		2018	2019	2020	2021	2022	Grand total
1	Manchester	37	34	34	31	45	**181**
2	Edinburgh	21	22	36	31	38	**148**
3	Birmingham	22	30	26	17	28	**123**
4	Glasgow	19	23	23	23	20	**108**
5	Belfast	20	22	25	24	15	**106**
6	Leeds	21	20	16	15	15	**87**
7	Bristol	10	15	12	19	13	**69**
8	Aberdeen	8	16	13	14	15	**66**
9	Cambridge	10	10	12	14	9	**55**
10	Reading	12	14	6	8	5	**45**
11	Cardiff	8	10	5	8	9	**40**
12	Newcastle	6	3	11	6	11	**37**
13	Coventry	8	8	10	6	4	**36**
14	Liverpool	8	8	8	3	7	**34**
15	Sheffield	6	7	9	4	7	**33**
16	Derby	8	8	3	4	7	**30**
17	Milton Keynes	6	6	4	9	5	**30**
18	Nottingham	4	6	10	3	5	**28**
19	Warwick	3	1	2	12	10	**28**
20	Oxford	2	3	4	12	6	**27**

Source: *EY European Investment Monitor (EIM)*, 2021-22

Scotland 2023

Viewpoint from EY Scotland

Ally Scott
Managing Partner
EY Scotland
Ernst & Young LLP
LinkedIn

As this year's *UK Attractiveness Survey* confirms, 2022 saw Scotland put in another powerful performance in securing inward investment projects.

Against the background of a 1.4% rise in projects across Europe and a 6.4% fall in projects into the UK as whole, Scotland recorded its fourth successive annual increase, with project numbers up by 3.3%.

The 126 projects secured represented a record both in terms of the absolute total and Scotland's UK market share, which reached 13.6%. And while 'new' projects into Scotland from first-time investors declined, even here Scotland managed to increase its UK market share of these projects, which tend to be higher-value and involve higher skills.

A resilient performance in challenging times …

All of this adds up to an impressively resilient FDI performance in times that are challenging both economically and geopolitically. One effect has been to further consolidate Scotland's already well-established position as the most attractive UK location for FDI outside London. Indeed, Scotland's project count has now been second to London in nine of the past ten years.

What's more, London's lead narrowed significantly this year, as its projects declined by almost a quarter. And it was telling that most other UK regions record an increase, suggesting that levelling up may increasingly be becoming a reality in FDI.

… with positive trends in terms of sectors, activities and cities …

A closer look at projects into Scotland provides further grounds for optimism. Digital tech and utilities (including renewables) remain the biggest sectors driving Scottish FDI, and finance projects more than doubled in 2022. Manufacturing FDI is at its highest in a decade, and R&D projects at their second highest. And in terms of FDI cities in 2022, Edinburgh and Glasgow remain solidly in the UK's top four, with Aberdeen being in joint fifth, alongside Leeds and Belfast.

On the origins of FDI into Scotland, 2022 has reaffirmed once again the strength and importance of Scotland's mutually-beneficial FDI relationship with the United States, the source of almost a third of projects secured during the year. That said, the US was just one of 29 different countries investing in Scotland in 2022.

… but mixed news on jobs

Such figures underline the rich dynamism, diversity and balance of the Scottish economy and FDI sector, qualities that we at EY Scotland see every day. The only fly in the ointment for the 2022 FDI figures was the employment created by Scottish projects, which fell by 48.6% year-on-year from 2021.

However, there are three points to make here. First, FDI employment numbers are notoriously variable, and not all projects provide them. Second, 2021 was an outlier year when FDI jobs in Scotland more than doubled — and despite the subsequent correction, the 2022 jobs figure was still above 2020's. Third, lower job numbers often equate to higher-value projects, such as R&D, requiring smaller numbers of higher-skilled people — with the higher volumes of jobs coming later, as projects expand into activities like production.

Investor perceptions remain very positive …

Reinforcing the positive signs in the 2022 FDI numbers, our 2023 investor perception survey suggests Scotland's offer to investors is continuing to win hearts and minds worldwide — with 11% rating it as the UK's most attractive FDI location, second only to London and ahead of all other regions.

Other encouraging findings include the fact that 19.2% of the overseas companies planning to invest in the UK this year specify Scotland as the target destination; and that both Edinburgh and Glasgow are cited as the target location for 15% of planned investments in UK cities. That's well ahead of all other UK cities, with third-placed Cardiff back on 8.5%.

… but competition is tightening

However, the perception findings also indicate that competition for FDI across the UK is tightening. While Scotland's 11% rating puts it solidly second behind London, that score is down from 15.8% in 2022, which was 6.5 percentage points ahead of the South of England in third place. This year the gap to the third-placed East of England is just two percentage points.

Going forward: engage, plan, and play to our strengths

The clear message is that while Scotland is making great strides in winning FDI and a building a great reputation as a place to invest, there's no room for complacency. To keep extending its status as the preferred region to invest outside London, Scotland must engage, plan, and play to its strengths.

Engage with public and private sector bodies, skills agencies and more to create a vibrant ecosystem for growth. *Plan* how to sustain continued market-leading levels of attractiveness in the medium and long term. And *play to its strengths* by prioritising high-value, high-potential areas like digital tech, renewable energy and R&D.

Scotland's strong FDI performance in 2022 has laid down an even stronger basis for future growth in project inflows. But resting on our laurels won't bring that about. In an increasingly competitive market for FDI, both globally and within the UK, it's time for all of us in Scotland to work even harder to get our message across.

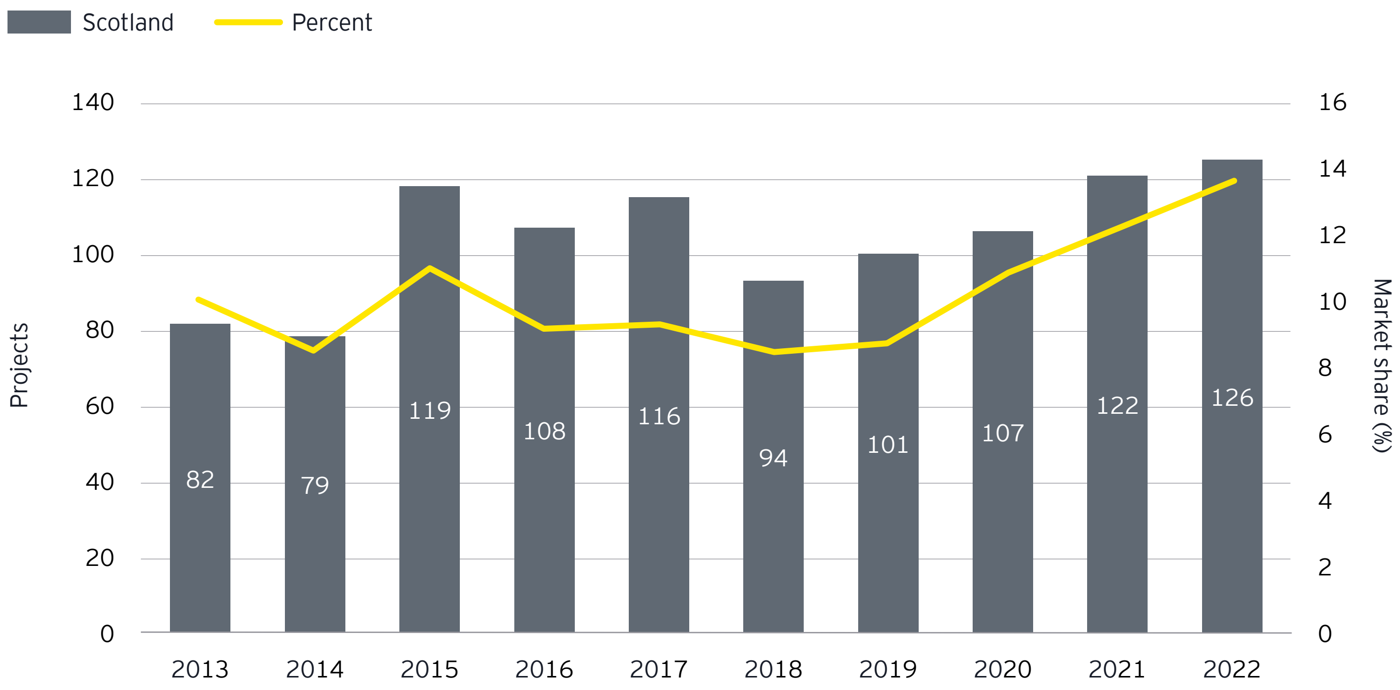
Scotland forges ahead — increasing its project numbers and UK market share ...

In 2022, Scotland secured 126 projects compared to 122 the previous year — a rise of 3.3%, in a year when total projects into the UK as a whole fell by 6.4% to their lowest level in eight years. This was the fourth consecutive annual increase in projects recorded by Scotland, and its 2022 total of 126 projects represented the largest number ever recorded by the country.

The combination of a fall in UK projects and an increase in Scottish projects not only meant that Scotland increased its market share of UK projects — but also pushed its UK market share in 2022 to the highest level ever recorded, at 13.6% of UK projects (up from 12.3% in 2021). As recently as 2018, Scotland secured just 8.9% of UK projects, and its share has been increasing ever since that point.

In 2022, Scotland secured 126 projects compared to 122 the previous year.

Figure 43: Scottish projects and market share of all UK projects 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

... while further cementing its position as the UK FDI location of choice outside London ...

With projects in London declining from 394 in 2021 to 299 in 2022, the rise in investments into Scotland during the year narrowed London's lead in UK projects, and further cemented Scotland's position as the most attractive location for FDI outside the UK capital. What's more, Scotland's position as the UK 'region' securing the second largest number of projects after London is a status it has held for every year of the past decade apart from 2014, when it ranked second. (See chart "Figure 37: Projects across all UK regions, 2021-2022" on page 43).

Also in common with previous years, after Scotland the third-placed 'region' changed in 2022, with North West England taking that position. A further significant point is that while Scotland has exceeded 100 projects in seven of the past ten years, only one English region outside London has ever achieve the same — the North West in 2017.

Figure 44: Projects into UK regions, 2013-2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Greater London	380	381	406	446	459	458	538	383	394	299
Scotland	82	79	119	108	116	94	101	107	122	126
North West England	54	45	98	90	105	70	73	85	74	88
West Midlands	47	63	92	93	97	83	64	61	78	74
South East England	57	92	72	72	91	89	83	72	82	67
Yorks & Humber	20	50	83	80	82	49	59	55	40	51
East Midlands	27	29	37	37	43	40	39	38	39	48
East of England	20	15	21	40	59	36	40	54	40	44
North East England	25	24	44	52	48	36	30	32	30	40
South West England	27	28	37	38	53	35	30	32	42	35
Wales	24	42	41	40	33	31	24	23	17	31
Northern Ireland	36	39	15	42	19	33	28	33	35	26
Grand total	**799**	**887**	**1,065**	**1,138**	**1,205**	**1,054**	**1,109**	**975**	**993**	**929**

Source: *EY European Investment Monitor (EIM), 2013-22*

… and reaffirming the attractiveness of Scotland's major cities

Scotland's success in maintaining its long-standing position as the second-ranked 'region' of the UK for FDI is largely built on the success achieved by its cities. Over the past five years the total number of projects recorded by Edinburgh and Glasgow has placed them among the UK's top five cities outside London, and Aberdeen is also placed within the top 10.

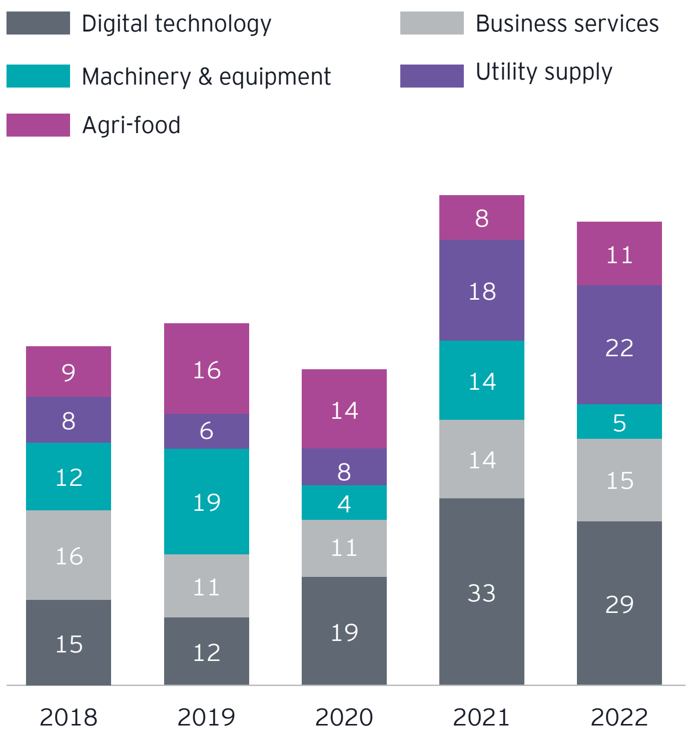
Edinburgh ranked equal first with Manchester in 2021 and second in 2022, and ranks second in the UK over the past five years overall. In 2022 Edinburgh increased its project count by seven projects (or 22.6%) to 38 – and it sits with Manchester as the only two UK cities to attract more than 30 projects in each of the past three years. For Scotland to have three cities in the UK's top five for FDI in 2022 – despite a small fall in projects in Glasgow – and Aberdeen also in the top five bears testament to Scotland's enduring attractiveness to inward investors. (See chart, "Figure 42: 20 largest UK city recipients of investment (excluding London) 2018-2022" on page 47.)

A more nuanced picture on 'new' projects and FDI jobs

While Scotland clearly had another strong year in attracting FDI projects in 2022, some of the data is more mixed. For example, while projects into Scotland rose overall, 'new' projects from first-time investors (as opposed to expansions of existing investments) remained unchanged at 66, and below the decade high of 68 in 2016. However, the fact that new projects into the UK as a whole fell by 15.4% in 2022 means Scotland's share of new UK projects rose from to 10.2% from 8.6% in 2021. This is the highest level recorded to date, and compares with a share of just 5.9% of new UK projects as recently as 2019.

The data on FDI jobs for 2022 also provides food for thought. These numbers need to be treated with caution, as not all projects disclose employment figures. But the fact remains that despite a rise in projects, the number of jobs created by FDI in Scotland in 2022 fell by 48.6% to 5,205. Last year we did see a few very large projects in respect of employment, which did impact the results. However, there may be a silver lining, in that while projects in sectors like digital tech or activities like R&D often create relatively fewer jobs, those jobs are frequently higher-value and more skilled. Often the higher-volume employment impact will come later, with follow-on investments in subsequent years.

Figure 45: Leading five sectors for investment in Scotland 2018-2022 by year



Source: *EY European Investment Monitor (EIM), 2018-22*

Sectors for projects in Scotland: digital and utility supply take the lead

In common with the UK Europe and as a whole, the largest single sector for projects recorded in Scotland in 2022 was the digital tech industry. While this has been the case for the UK overall throughout the past ten years, for Scotland the position has been more fluid. Digital tech has been the leading sector for Scottish FDI in each of the past three years – but in 2019 the sector contributing the largest number of projects in Scotland was machinery & equipment, and in 2018 it was business services.

The number of digital tech projects recorded in Scotland in 2022 was 29, down by 12.1% from 33 in 2021. This meant digital tech accounted for 23% of Scotland's total projects for the year. The share of digital tech projects at a UK level in 2022 was slightly higher, at 25.2%.

Three of the five leading sectors for Scottish projects over the period 2018 to 2022 increased their project count in 2022. Business services increased from 14 projects in 2021 to 15 in 2022, up by 7.1%; utility supply projects increased from 18 to 22, up by 22.2%; and agri-food projects increased from 8 projects to 11, up by 37.5%.

While the finance sector is not among Scotland's five largest FDI sectors over the past five years, finance projects in Scotland leapt by 166.6% in 2022, rising to eight projects compared to just three in 2021. This was the strongest showing by the sector in Scotland since 2016, when Scotland secured nine finance projects.

Figure 46: A breakdown of Scottish FDI in 2022 by sector

Rank	Sector	No. Projects
1	Digital technology	29
2	Utility supply	22
3	Business services	15
4	Agri-food	11
5	Finance	8
6	Pharmaceuticals	6
7	Machinery & equipment	5
8	Electronics & IT	5
9	Transportation manufacturers & suppliers	5
10	Electronics	5
11	Oil & Gas	4
12	Transportation & logistics	4
13	Construction	3
14	Medical Devices	2
15	Textile, clothing & leather	1
16	Chemicals, plastic & rubber	1
	Grand total	**126**

Source: *EY European Investment Monitor (EIM), 2013-22*

Activities generating investment in Scotland: sales and business services still tops the ranking – but a manufacturing renaissance is underway, along with a rise in R&D projects

In terms of the activities that projects are undertaking, sales and the provision of business services were the most common activities for projects secured by Scotland in 2022. This was similar to the UK overall: for the UK, sales and business service operations represented 42.9% of all projects, while their share in Scotland was 40.5%.

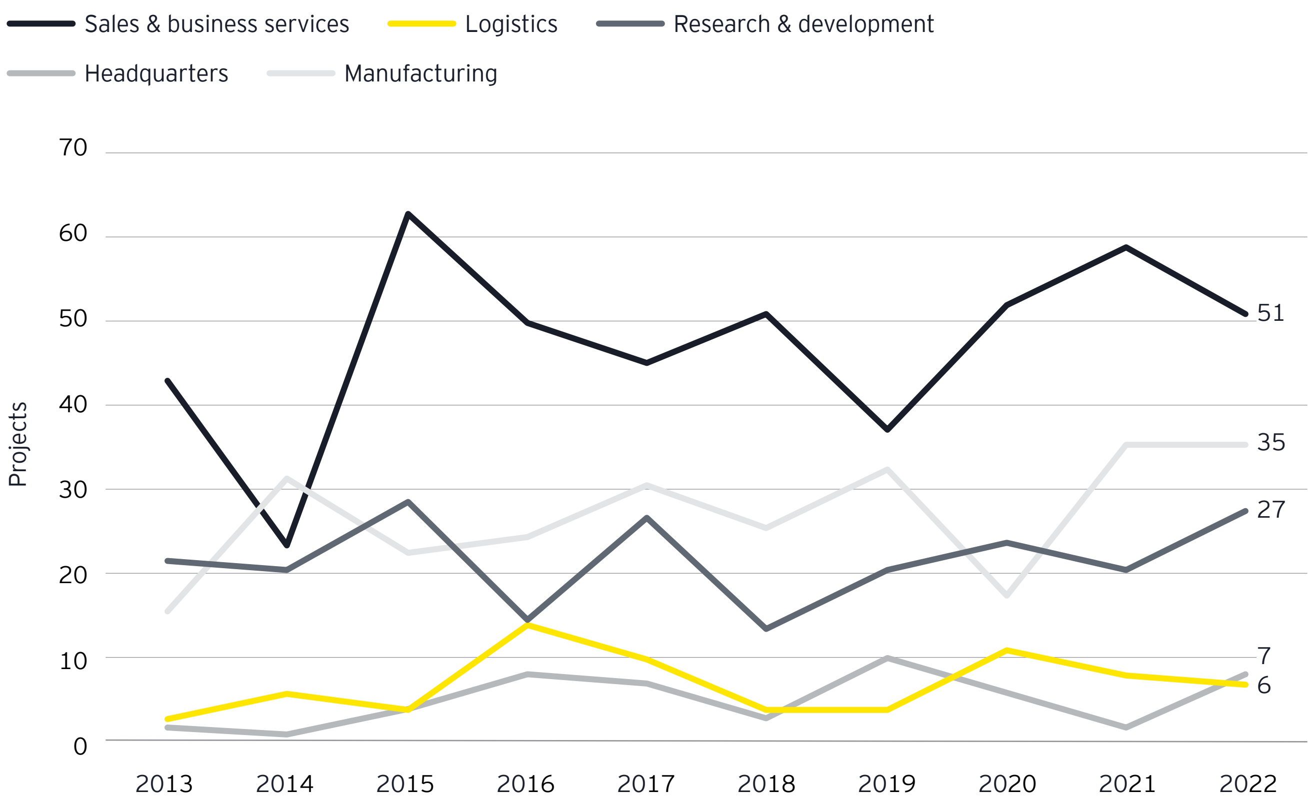
However, with sales and business services activity declining slightly, a potentially more interesting development is the continuing strength of manufacturing projects. While manufacturing was the second largest project activity in both Scotland and the UK as a whole, manufacturing's share across the UK was 18.8% of all projects – while in Scotland manufacturing accounted for 27.8% of projects. This continues the recent renaissance of manufacturing project investments in Scotland, with a decade-high 35 projects in both 2021 and 2022.

Equally encouraging is the rise in R&D project activity in 2022, with Scotland securing 27 projects – its highest number of R&D investments since 2015, when it recorded 28.

Origins of FDI into Scotland: the US remains the biggest investor – followed by Germany and France

In terms of origins, four countries account for more than 50% of Scotland's total investment projects – the most prominent of which is the United States, which has been the leading origin of projects into Europe as whole, the UK and Scotland throughout the past decade. Scotland

Figure 47: Activity of investment projects into Scotland 2013-2022

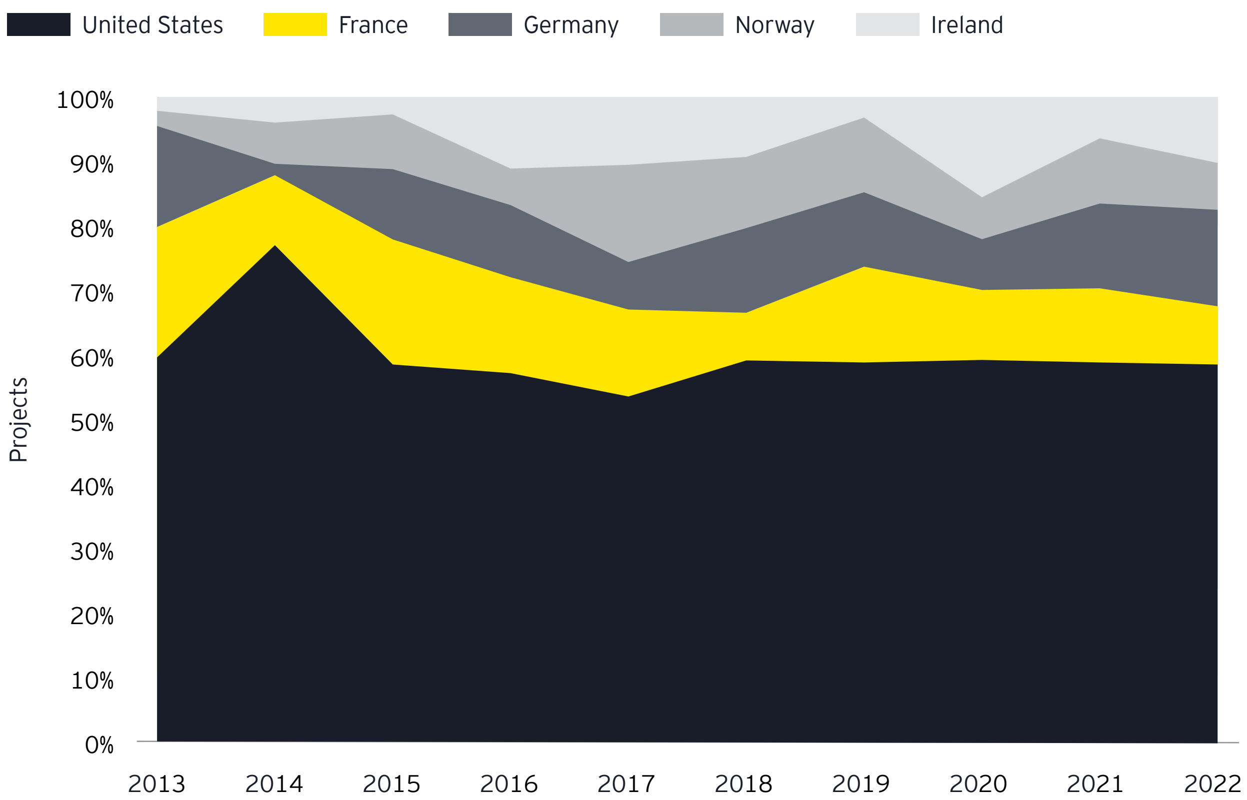


Source: *EY European Investment Monitor (EIM), 2013-22*

secured 32% of its inbound projects from the US in 2022, while the US share of projects into the UK as a whole was significantly lower, at 23.9%. A breakdown of US investment shows a sectoral focus on digital & IT services (30% of projects), and activities being led by R&D (33%) as well as business services (33%).

Behind the US, second place among origins of Scottish projects in 2022 went to Germany, which was the source for 8% of Scottish projects. Third was Ireland, followed by Canada in fourth place. Historically, France has been the second-biggest origin of Scottish projects over the past decade after the US. But in 2022 France contributed its smallest complement of projects in five years, and slipped to fifth. Interestingly, while India ranked second among the origins of projects in 2022 for the UK as a whole, Scotland received only two projects of Indian origin during the year, putting India joint 13th.

Figure 48: Time series data for largest origins of investment into Scotland, 2013-2022



Source: *EY European Investment Monitor (EIM), 2013-22*

Despite the leading position of the US as the main source of Scottish investments, the origins of projects in Scotland remain widely distributed, which bodes well for the future. The 126 Scottish projects recorded in 2022 came from a total of 29 different countries of origin. The top five origins of investment in Scotland have varied substantially in the past five years, with the US consistently ranked first but no other country always placed in the top five. While Germany and France have each been in the top five in four of the past five years, other top-five origins have included Switzerland, Norway, Ireland, Japan, Netherlands, Canada, Australia and Spain.

The origins of projects in Scotland remain widely distributed, which bodes well for the future.

Table 49: The top five origins of investment into Scotland, 2018-2022

	2018	2019	2020	2021	2022
#1	United States	United States	United States	United States	United States
#2	Germany	France	Ireland	Spain	Germany
#3	Switzerland	Germany	Netherlands	Germany	Ireland
#4	Norway	Norway	France	Canada	Canada
#5	Ireland	Japan	Australia	France	France

Source: *EY European Investment Monitor (EIM), 2018-22*

In summary, Scotland has had another very good year from an investment perspective. Not only are Scottish projects up in terms of overall numbers and UK market share, but a closer look beneath the headline figures also reveals further positive trends worth calling out. For example, Scotland's UK share of new projects has risen to an all-time high; Scotland remains the destination of choice for investors outside of London; and Scottish cities consistently punch above their weight in the top bracket of UK cities for attracting FDI.

What's more, Scotland has some distinctive strengths at the more granular level. It maintains a much higher share of investment manufacturing activity than the UK as a whole – a competitive strength it should work to maintain and build upon. And digital and renewables investments are performing strongly in Scotland – with both likely to remain key focus sectors into the future.

However, there are some risks to be aware of – not least that the Scottish investor base is relatively highly concentrated around US and intra-European investment, while the wider UK has a more diverse base of investors. Diversifying this investor base will be a key policy challenge for Scotland in the years ahead.

Scotland's UK share of new projects has risen to an all-time high.

Investor perceptions of the UK: mixed mood music

Executive perception of the UK is down on last year – putting it in third place behind Germany and France ...

As in previous years, our 2022 perception study of the UK's attractiveness to overseas investors enables us to develop a detailed view of the UK's future appeal as a destination for FDI. This year, the research has revealed differing fortunes across the three largest European economies. When we asked executives which was the most attractive location in Europe, our findings showed that the UK has fallen to third place, with just 32% putting it in their top three compared to 44% in 2022.

While this decline probably reflects – to an extent – some of the political and economic headwinds the UK has faced in the past year, the survey also points to a number of areas that UK policymakers may wish to prioritise on the road ahead. Germany has a clear lead in terms of attractiveness, rising by 20 percentage points to 62%, while France is second on 49%, up by 2 percentage points from 2022.

Even in a recession, Germany – Europe's largest economy – appeals strongly to investors. Its high attractiveness is stressed especially strongly by industries such as pharmaceuticals (90%). France is also holding up well, registering a modest increase in its vote even at a time when overseas investors are questioning the government's ability to push through the reforms needed to boost its competitiveness.

Meanwhile, the UK is being impacted by concerns about trade restrictions and labour shortages, which are (in part) caused by Brexit. However, the UK is successfully maintaining its attractiveness in key sectors like financial services (57%). It is worth noting here the extent to which the survey is informed by an immediate snapshot of sentiment in this regard, meaning it can be sensitive to temporary social, economic and geopolitical events. Therefore, perceptions do not always translate directly to reality. It is likely that some of the impact of these temporary events and uncertainties can be mitigated in time with, for example, further regulatory stability and a resumption of political calm. That said, it's still interesting to note that no Central and Eastern European country makes the top 10. Proximity to Ukraine and Russia is undeniably present in the minds of investors – and may continue to loom large until the immediate hot nature of the conflict slows down or reaches a more stable resolution.

Figure 50: "Which European countries do you believe will be the most attractive for foreign investment in 2023? (Three choices)"

Most attractive (%)	2021	2022	2023
Germany	28%	42%	62%
France	31%	47%	49%
UK	43%	44%	32%
Belgium	11%	19%	23%
Italy	26%	20%	20%
Spain	20%	17%	19%

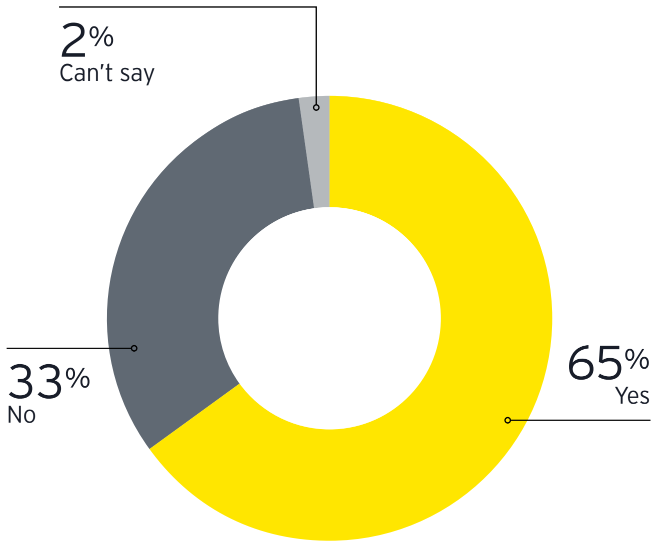
Source: *EY UK Attractiveness Survey 2023*

This year, the research has revealed differing fortunes across the three largest European economies.

… although plenty of investors are still planning to invest in the UK in 2023 …

However, while the UK's perceived attractiveness appears to have fallen, our findings on investment intentions tell a quite different story. Fully 65% of the investors we polled said that they were planning on making an investment in the UK in 2023 – the highest level ever recorded in this research. Looking across Europe, only Latvia (75%) and Portugal (72%) scored higher.

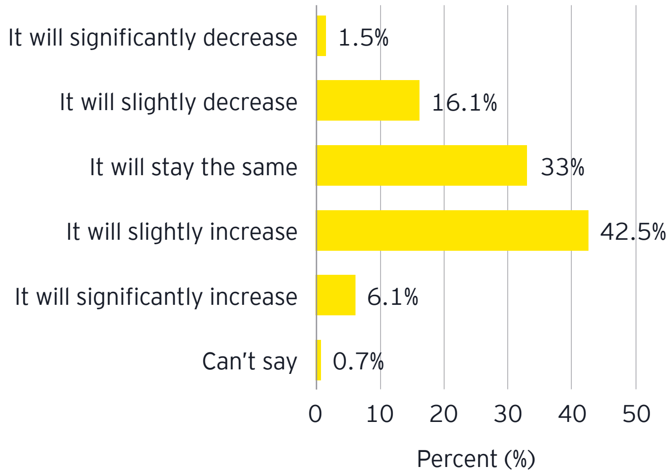
Figure 51: "Does your company have plans to establish or expand operations in the UK over the next year?"



Source: *EY UK Attractiveness Survey 2023*

Meanwhile, expectations of the UK's attractiveness into the next three years have remained largely similar since to 2022. While only 6.1% executives believe the UK's attractiveness will 'significantly increase' compared to 8.4% last year (a drop of 2.3%), a reassuring 42.5% expect it will 'slightly increase' compared to 41.0% last year (an increase of 1.5%). Where executives have noted a decrease in attractiveness, the reasons attributed mostly focus on an increased regulatory burden (55.6%), rising costs (54.2%), and a reduction in market size (38.9%). Political instability also featured (34.7%) which may be more prominent owing to the timing of when the survey was conducted, soon after the short-lived Liz Truss regime. And while only 26.4% of investors noted issues relating to incentives offered elsewhere, this may now be higher on the agenda for many investors as the subsidy policy debate unfolds in the US and Europe.

Figure 52: How do you expect the UK's attractiveness to evolve over the next three years?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

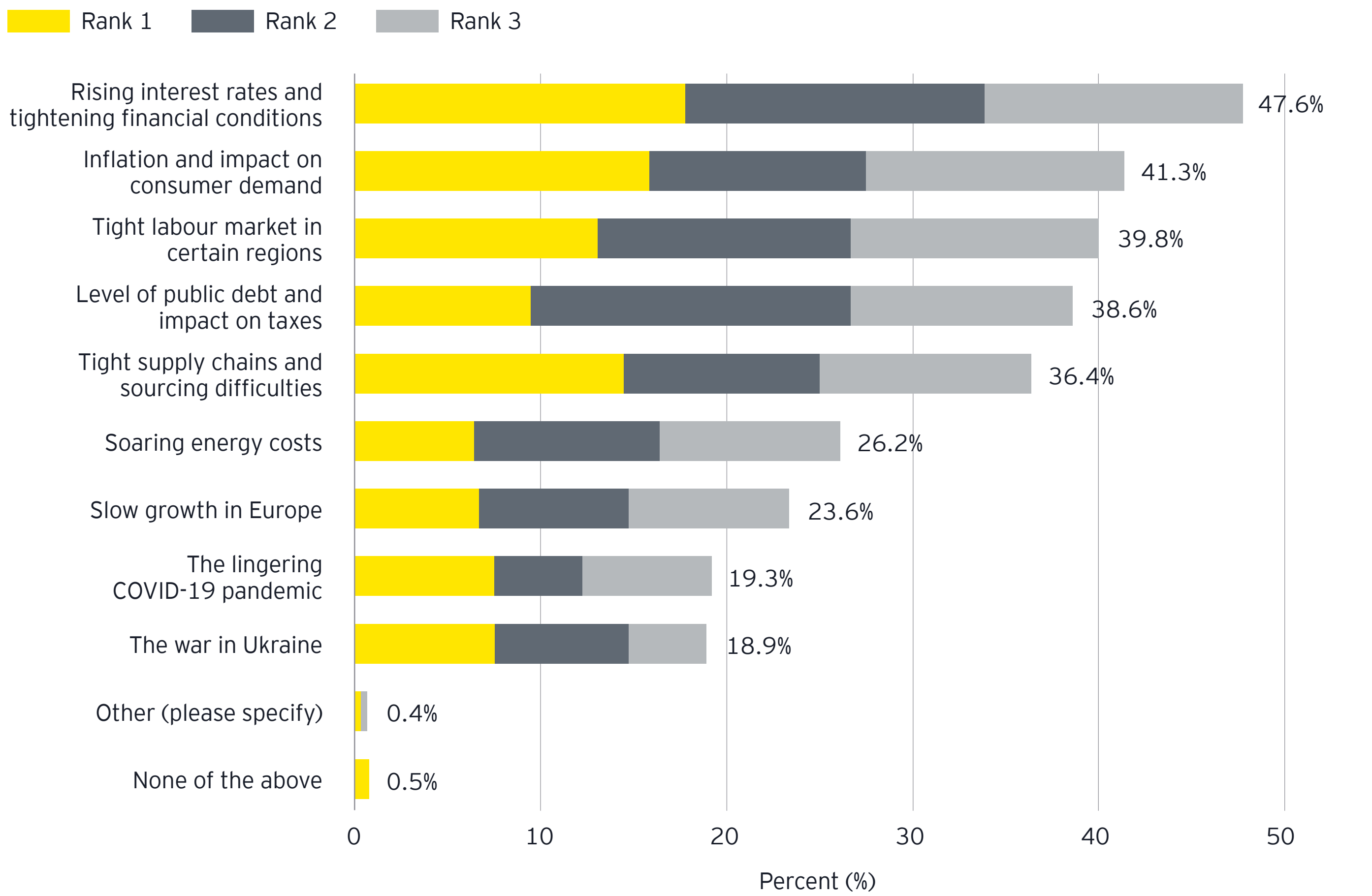
Expectations of the UK's attractiveness into the next three years have remained largely similar since to 2022.

… and executives in chemicals and pharmaceuticals are particularly positive towards the UK

Sentiment towards investing in the UK is especially positive among respondents in the chemicals and pharmaceuticals sector, where 84.6% of investors are planning to undertake a UK project in the next year, an intention also voiced by the vast majority of financial investors (82.5%). While it's clearly encouraging that these high-value sectors that are traditional strengths for the UK are voicing such a strong intention to invest here, any optimism should be tempered by the fact only 42.9% of consumer products sector respondents are planning activity in the coming 12 months. One of the larger declines this year is the drop from 80% of investors in the digital sector last year intending to invest, to just 64.3% in 2023. This fall appears to be symptomatic of the issues facing the tech sector.

> Sentiment towards investing in the UK is especially positive among respondents in the chemicals and pharmaceuticals sector.

Figure 53: Which three of the following economic risks have impacted your 2023 investment plans in the UK the most?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

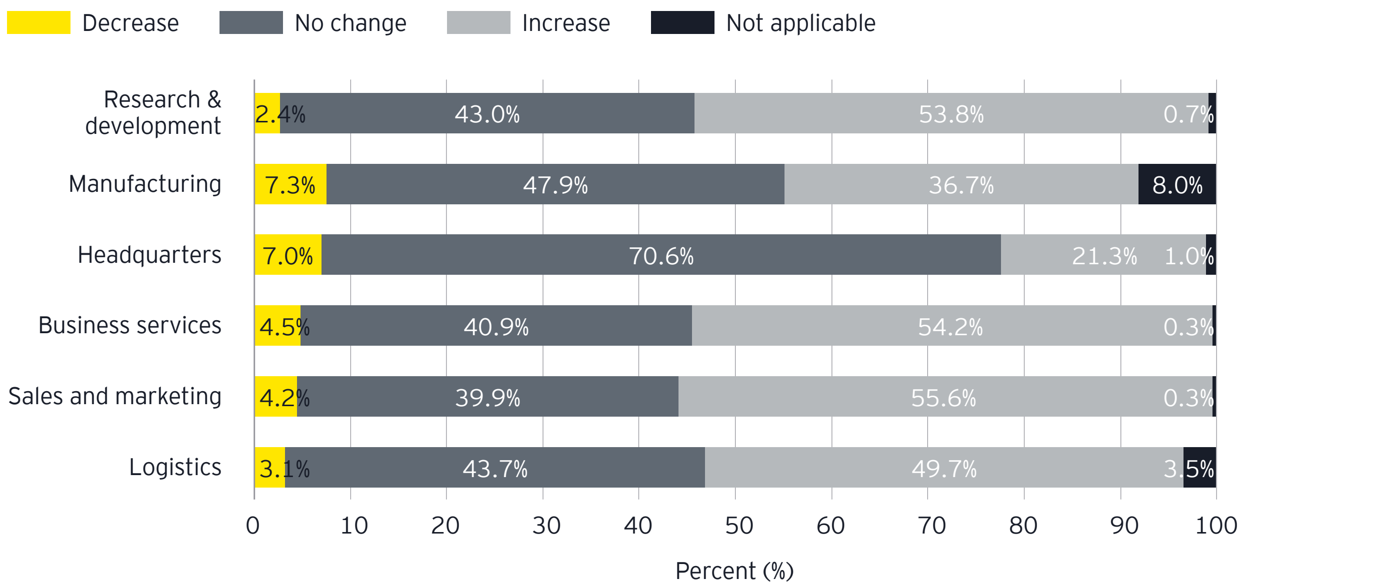
Investors' intentions towards their UK footprint appear to be converging across the size range …

For the first time this year, our survey has asked how investors expect their current footprint in the UK to change – and the results are mixed depending on the activity. For instance, there is a reluctance among investors to make major departures from an existing headquarters footprint, with 70.6% ruling it out. This is perhaps natural given the potential disruption such a change in footprint could entail, and appears to be a sentiment shared by both European and non-European headquartered investors alike. In positive news, there are notably large portions of R&D activity seeking to increase their footprint, at 53.8% overall and as high as 70% in the industrials sector – a positive trend that UK policymakers will want to encourage to capture those higher value investments.

Last year, we pointed out that large companies with over €1.5 billion in turnover are 50% more likely to invest in R&D than companies with annual revenues below €150 million – and we noted that the size of an investor appeared to be an important factor in such decisions.

This year's research suggests that company turnover is now less relevant to investment decisions, with a difference of only 10.4% between the largest and smallest investors: indeed, the figures for increasing manufacturing footprint are similar irrespective of size. Therefore, it seems that where strategic investment is concerned, size may be important to the overall capital expenditure and job creation – but smaller investors are being driven by similar forces.

Figure 54: In the next three years and in the following categories, how do you expect to change your current footprint in the UK?



Source: *European level Attractiveness Survey 2023 (509 respondents)*

… putting the UK more in line with executive perceptions across Europe, facing similar economic woes

Looking across Europe, the current economic circumstances are top-of-mind for investors as they make potential investments in 2023. Specifically, rising interest rates and tightening financial conditions, inflation, and its impact on consumer demand, are the most commonly cited factors. And while 67% of executives in our European-level survey say they have plans to invest in Europe during the coming year, the economic environment remains challenging. Growth prospects are improving but remain modest: the EU is forecasting growth of 0.8% in 2023, while the latest UK forecast by the EY ITEM Club is for 0.2% growth. The fears of instability in the global banking sector that were sparked by the collapse of Silicon Valley Bank – an event that was unfolding while our survey fieldwork was in progress – and Credit Suisse remain in the minds of investors.

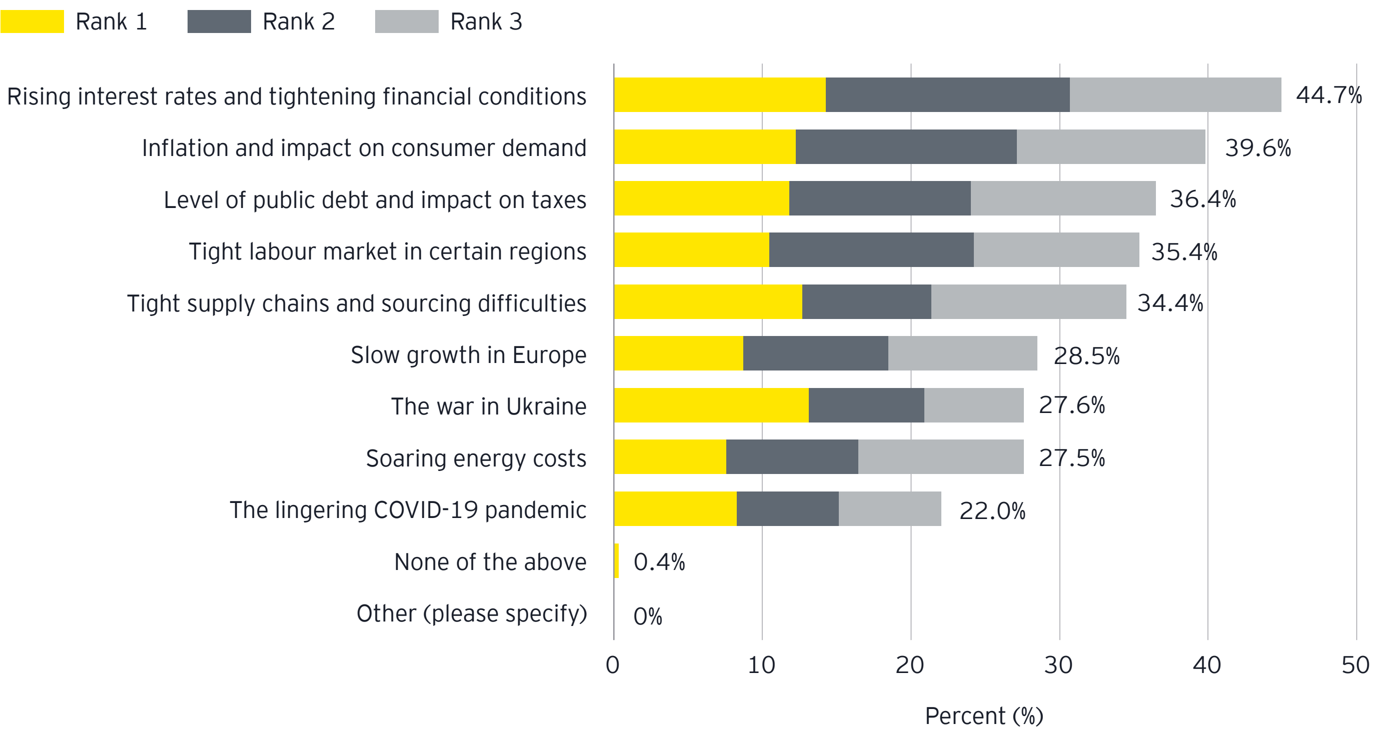
However, the UK is still highly favoured by investors for the size of its domestic market and the quality of education on offer …

With the UK having now slipped to the position of third most attractive location in Europe, from second last year and third the year before, there are still some notable investment criteria on which Germany, France, and UK each perform more strongly than the others.

An analysis of the characteristics that investors find attractive provides further reinforcement of what drives the UK's unique appeal as destination for investment. Our findings this year show that the ratings of the UK on the size of its domestic market, education, regulatory landscape, and diverse cultural life all encourage investors to come the UK – and together represent a comparatively strong position that the UK holds relative to other countries.

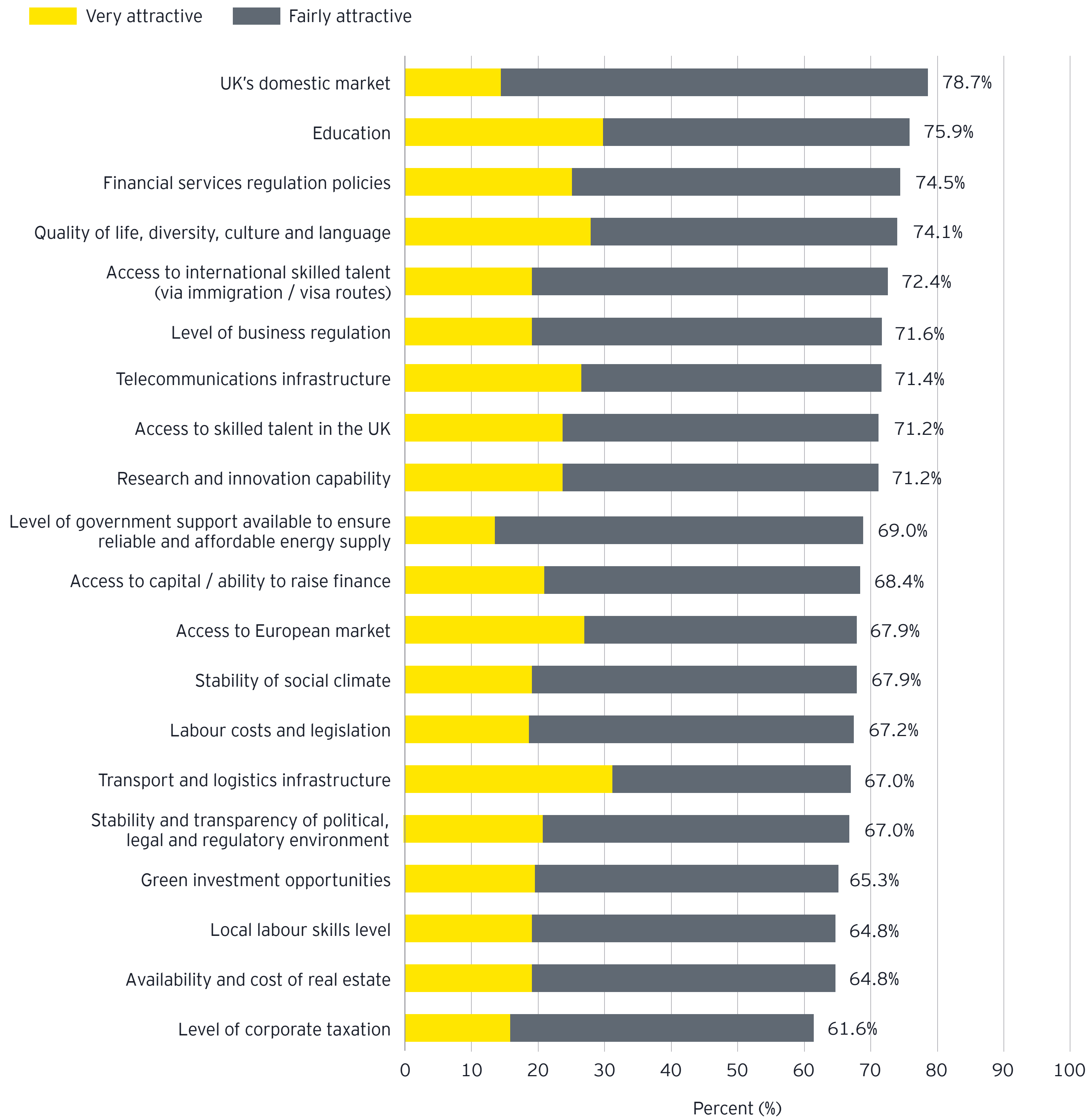
Geopolitical and regulatory risks are clearly important to investors. Governments will need to tread a careful line between reshaping their most attractive attributes and encouraging investment.

Figure 55: Which three of the following economic risks have impacted your 2023 investment plans in Europe the most?



Source: *European level Attractiveness Survey 2023 (509 respondents)*

Figure 56: For each of the following criteria, from the point of view of your company, how attractive is the UK as a foreign direct investment destination?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

Looking ahead: FDI opportunities and policy direction for the UK

Together, our analysis of project flows in 2022 and our survey of investor perceptions in 2023 show the path to some clear priority sectors for the UK.

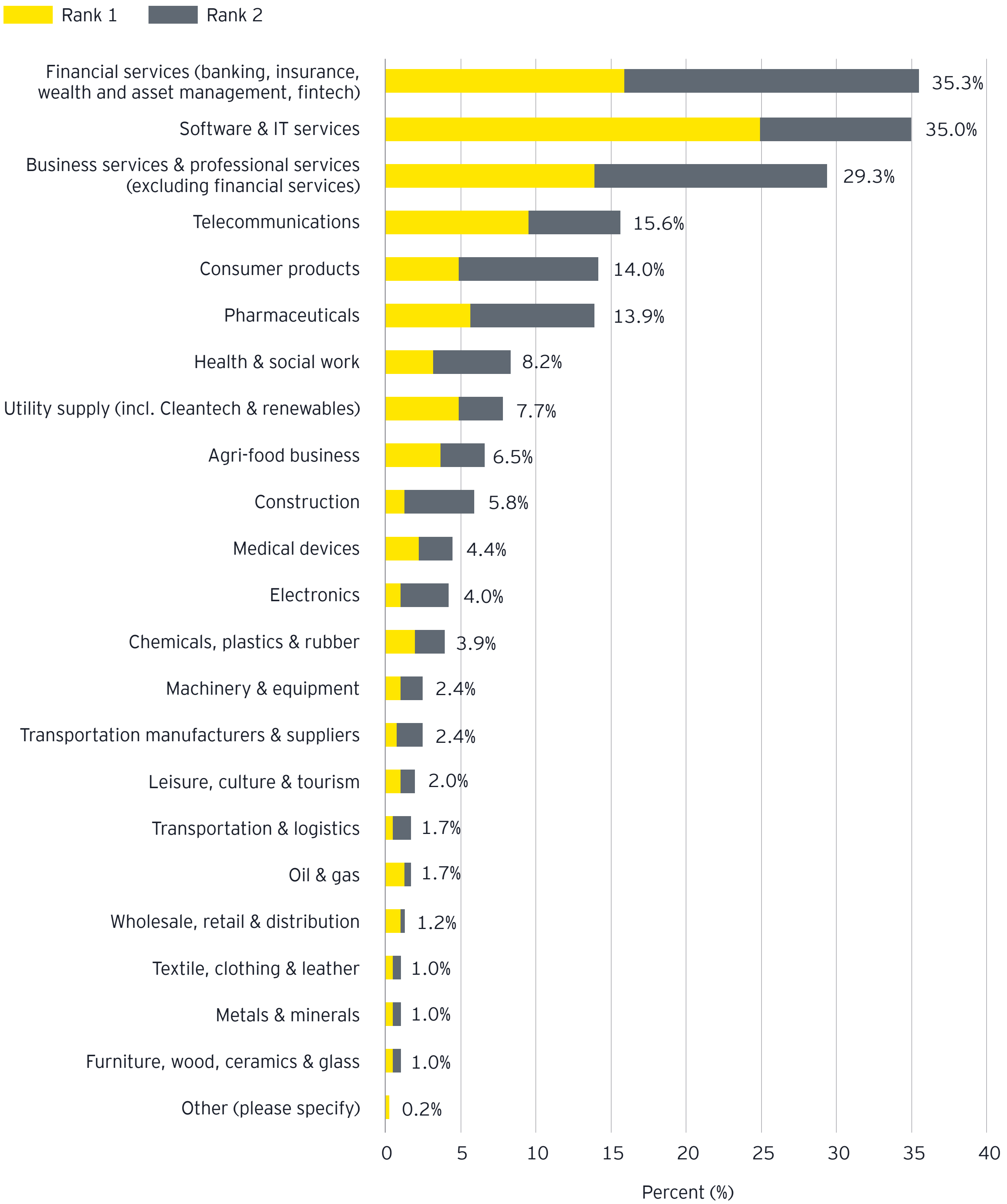
Finance, services, and tech are still expected to drive UK growth ...

As in previous years, our 2023 global perception survey asked existing and potential investors in the UK which two business sectors they believe which will be most important in driving the UK's growth in the coming years. Their responses showed that financial services has edged software & IT services out of the top spot it claimed in 2022, with 35.5% of executives ranking financial services either first or second as a UK growth driver, narrowly ahead of software & IT services on 34.9%.

This shift in perceptions may seem unsurprising given the fact that financial services investment into the UK increased in 2022, and that 2023 is a year where the tech sector has faced significant challenges. However, the tech and telecoms sector still ranks highly as a predicted leading driver of UK growth, with nearly 35% of respondent executives placing it first as a future growth driver in 2023, up from 26% in 2022 and 34% in 2021. It's also little surprise that the business services & professional services sector features highly as a growth driver given the UK's strong reputation in these sectors, although this is at odds with actual FDI flows in 2022, when UK projects in this sector declined. Meanwhile, the general decline in health-related sectors against the previous two years may reflect investors moving on from the immediate impact of the pandemic.

Our 2023 global perception survey asked existing and potential investors in the UK which two business sectors they believe which will be most important in driving the UK's growth in the coming years.

Figure 57: Please rank the top two business sectors that you expect to drive the UK's growth in the coming years?

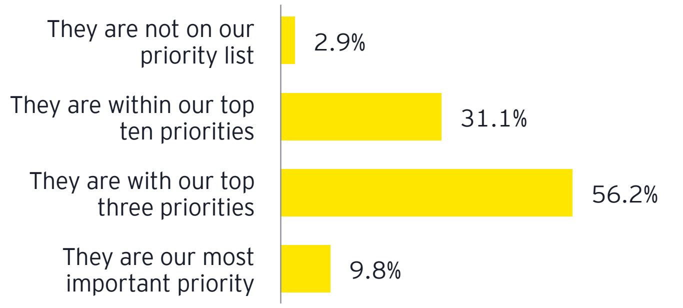


Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

Sustainability and cleantech investment remain major agenda items for investors into the UK …

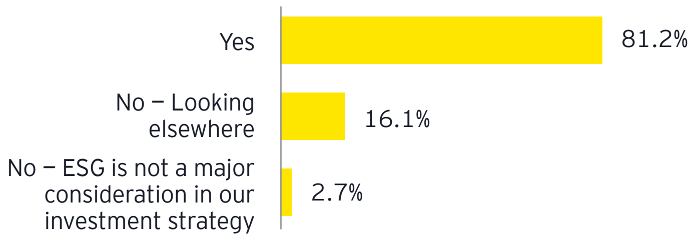
In last year's UK Attractiveness Survey, we noted how cleantech had maintained its importance in investors' minds, with a solid 19% of executives continuing to regard it as a significant driver of UK growth. However, we added that this lagged cleantech's 35% score in Europe. This year's UK findings show that utility supply – including cleantech and renewables – has scored just 7.8%. The obvious question is, why? Part of the answer may lie in the fact that the methodology of the European Attractiveness Survey, on which the UK report is based, has incorporated cleantech under the umbrella of utility supply (alongside other renewables) this year. What's more, other findings point to the rising importance of sustainability: executives not only rank ESG as being high on their board investment strategy agenda (only 2.9% said it did not feature), but also believe the UK ranks highly in terms of offering the right environment to achieve ESG goals (81.2%). Given we know that the UK ranked joint second with Spain with 37 investment projects in the renewable energy sector in 2022, cleantech's relatively low score as a growth driver does appear to be at odds with the reality in the market.

Figure 58: How important are environmental, social and governance (ESG) issues to your board's investment strategy?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

Figure 59: From an ESG perspective, does the UK offer the right environment for your investment?



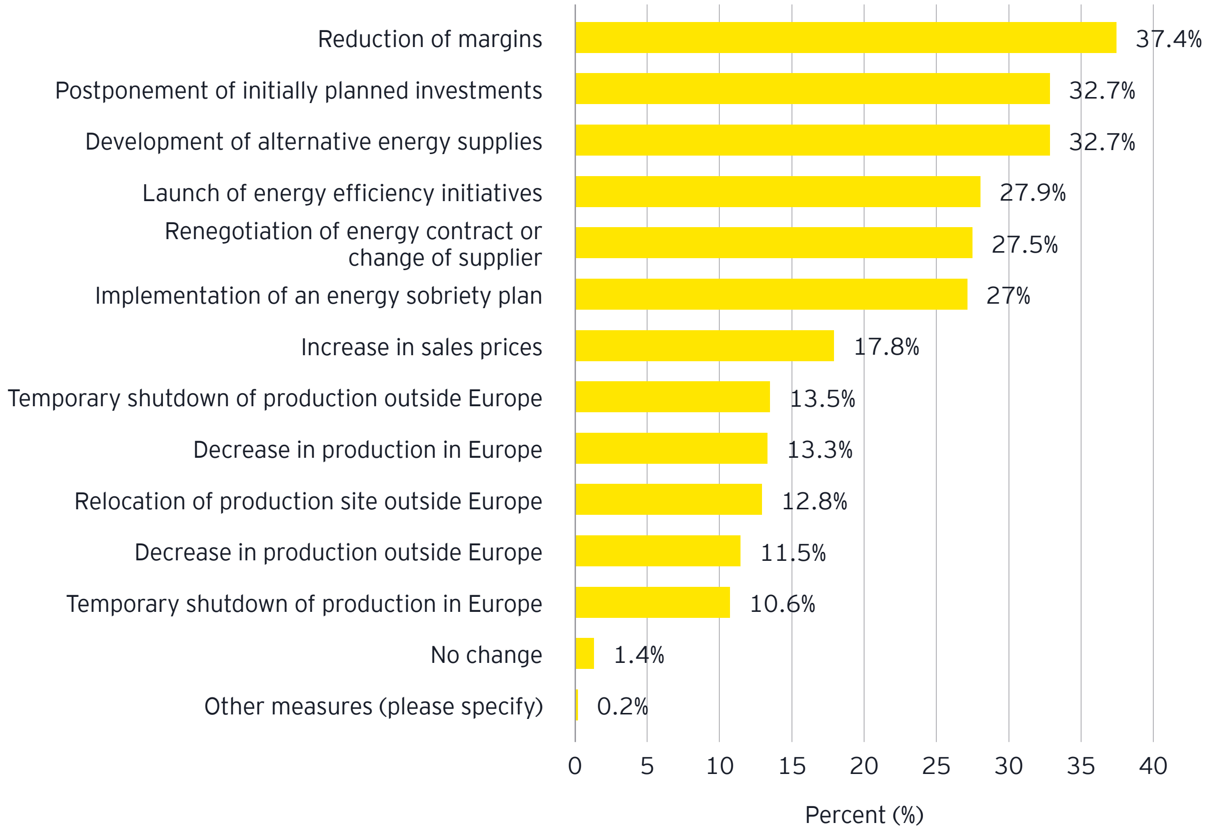
Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

… mirroring the measures that European investors have been taking in response to the energy crisis

Across Europe, many companies are taking measures to alleviate the economics risks posed by energy inflation – and in doing so, are driving economic activity in areas that support a sustainable agenda. While the fact that a significant number of planned investments are being postponed (32.7%) might appear alarming, it's offset by the finding that an identical 32.7% of companies have indicated that they're developing alternative energy supplies – a boost to sustainability goals that's further compounded by 27.9% launching energy efficiency initiatives, and 27.0% implementing energy sobriety plans. Going forward, 'sticky' inflation in the energy sector may continue to act as a double-edged sword: reducing margins and capital availability to invest in significant R&D, but also acting as a driver for the renewables industry.

A significant number of planned investments are being postponed (32.7%).

Figure 60: What measures has your company taken to address the European energy crisis?

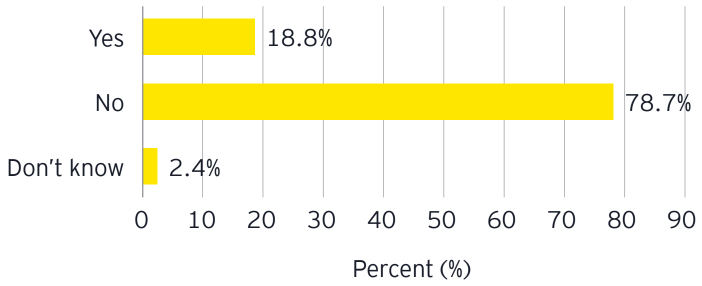


Source: *EY UK Attractiveness Survey 2023* (444 respondents)

Meanwhile, supply chains seem to be settling from historically high levels the past two years …

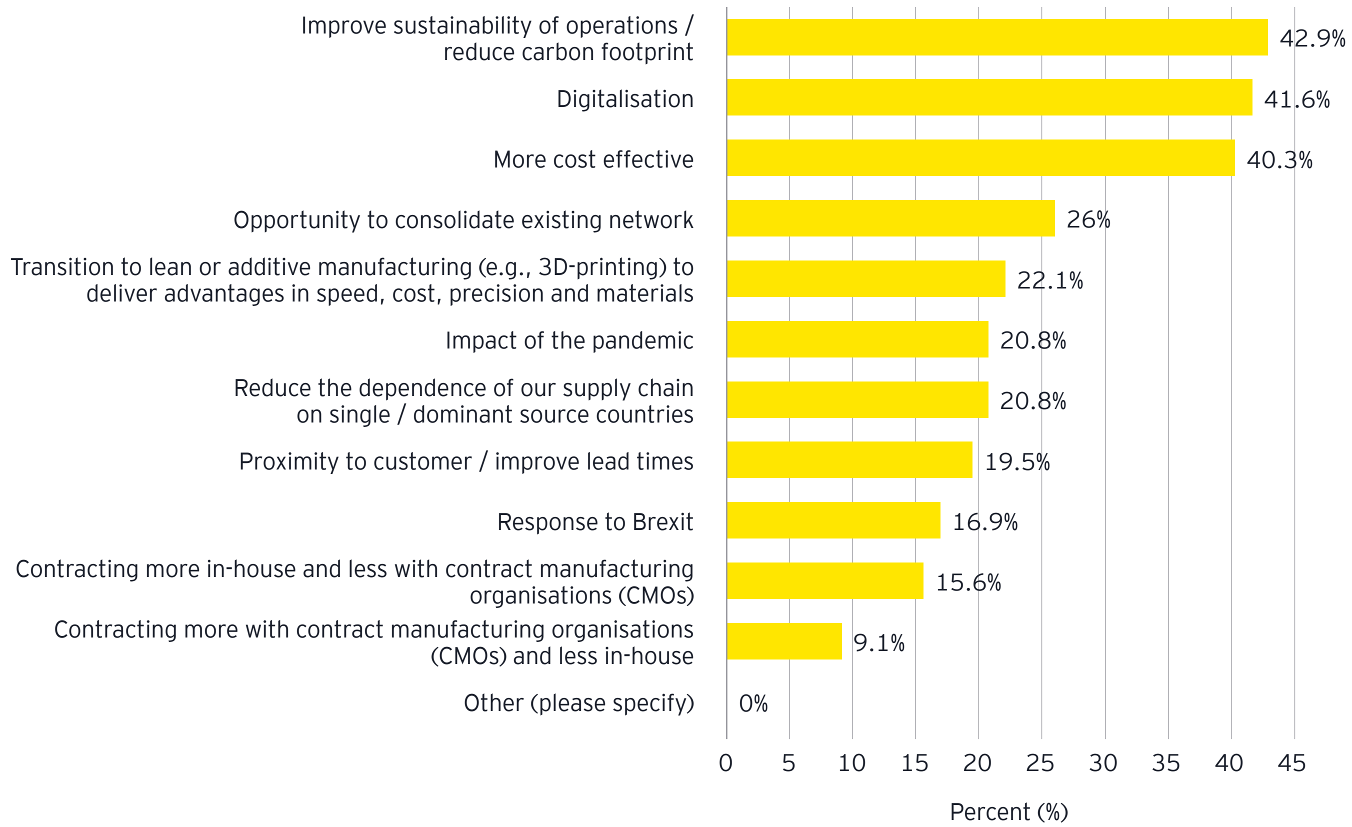
Our 2023 survey reveals a sizeable drop in the proportion of companies planning to change their supply chain – down from 39% in 2022 to just 18.8% this year, along with a marginal increase of one percentage point in companies saying they're uncertain. It's clear from this year's findings that cost is now playing a much bigger role in decisions to switch supply chains: only 27.7% of companies cited cost effectiveness as a reason last year, a share that has now risen to 40.3%. Meanwhile, sustainability (42.9%) and digitisation (41.6%) remain at similar levels to 2022. It's also apparent that the pressures that the pandemic imposed on supply chains are beginning to ease, with a 17.4-percentage-point reduction in companies citing it as a reason for changing their supply chain model.

Figure 61: Do you plan to change your supply chain model in future?



Source: *EY UK Attractiveness Survey 2023* (409 respondents)

Figure 62: Why are you planning to change your supply chain model in future?



Source: *EY UK Attractiveness Survey 2023* (409 respondents)

Overall, it seems clear that growth expectations are dampened in areas that are feeling acute economic pain. Despite the relatively high importance ascribed to business services & professional services as an anticipated driver of future UK growth, the findings from our 2023 investor perception study broadly track the shifting nature of demand for FDI — a correlation that we also noted last year. The UK's continuing high share of Europe's complement of digital investment projects means that while perceptions of the sector as a growth driver are being curbed by current headwinds, it will remain central. At the same time, other key services such as the health sector — pharmaceuticals, medical devices, and the broader healthcare industry — are increasingly important, and investors are concentrating more of their efforts on creating value through their investments in them.

It seems clear that growth expectations are dampened in areas that are feeling acute economic pain.

Policy implications: policy should reflect the themes that are driving decision-making

Given the constant shifts in the market for investment in the UK, how can policy respond with certainty and consistency? To find out, we asked investors in the UK to identify the themes likely to drive their decision-making. Our 2023 findings reveal significant changes from last year — and some common themes with the rest of Europe.

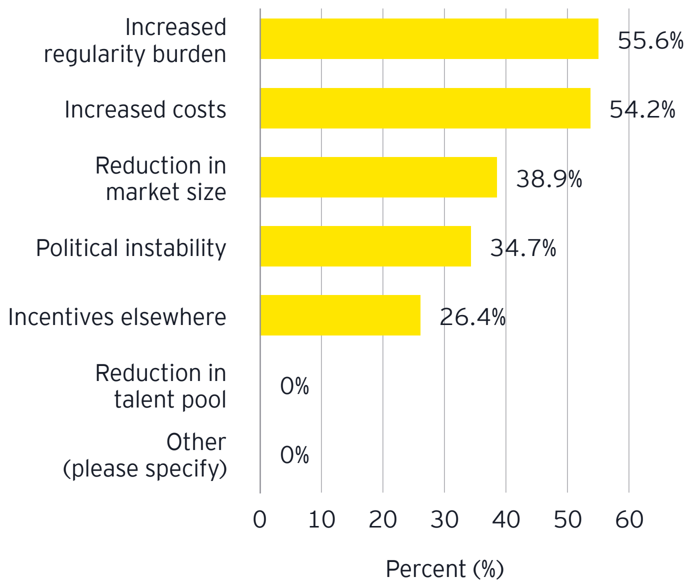
Investors' focus has moved on from COVID-19 to social and economic stability, and regulation ...

The responses to many of our survey questions make clear that the effects of the pandemic are easing. Over the past two years, we asked several specific questions on the pandemic — but, in the face of multiple new external shocks confronting investors both in Europe and the UK, the focus has now shifted decisively towards wider social and economic stability. Among the relatively small cohort of investors who thought the UK's attractiveness was going to decrease in the years ahead, the most commonly-cited reason was an increased regulatory burden, voiced by 55.6%. Interestingly, this proportion would be much higher if we excluded executives from the financial services sector, who didn't see an increased regulatory burden as ranking very highly as a problem. A more detailed breakdown by sector shows that the regulatory burden is a much bigger issue for respondents in chemicals & pharmaceuticals (100%), consumer products (70.6%), industrials (64.3%), and business services (66.7%).

... but core services feature prominently in choice of location ...

In last year's report we noted that investors are increasingly aware of the role governments will play in the economy, especially at a time when geopolitics and global economics are so challenging. And this sentiment continues to emerge strongly in our 2023 survey of investors on the main factors driving their location decisions. Achieving sustainability alongside managing geographic change resulting from deglobalisation

Figure 63: 'You said that you expect UK's attractiveness to decrease, why do you say that? Because of...'



Source: *EY UK Attractiveness Survey 2023* (72 respondents)

and shifts in how domestic markets are organised still requires significant government support, if companies are to succeed in managing both the change itself and its wider implications. It's also likely that both the pandemic and the energy crisis have made respondents more accustomed to seeing the public sector play a more active role in the economy. However, as underlined by the responses from those executives being dissuaded from investing in the UK, finding the appropriate regulatory balance remains a key policy challenge.

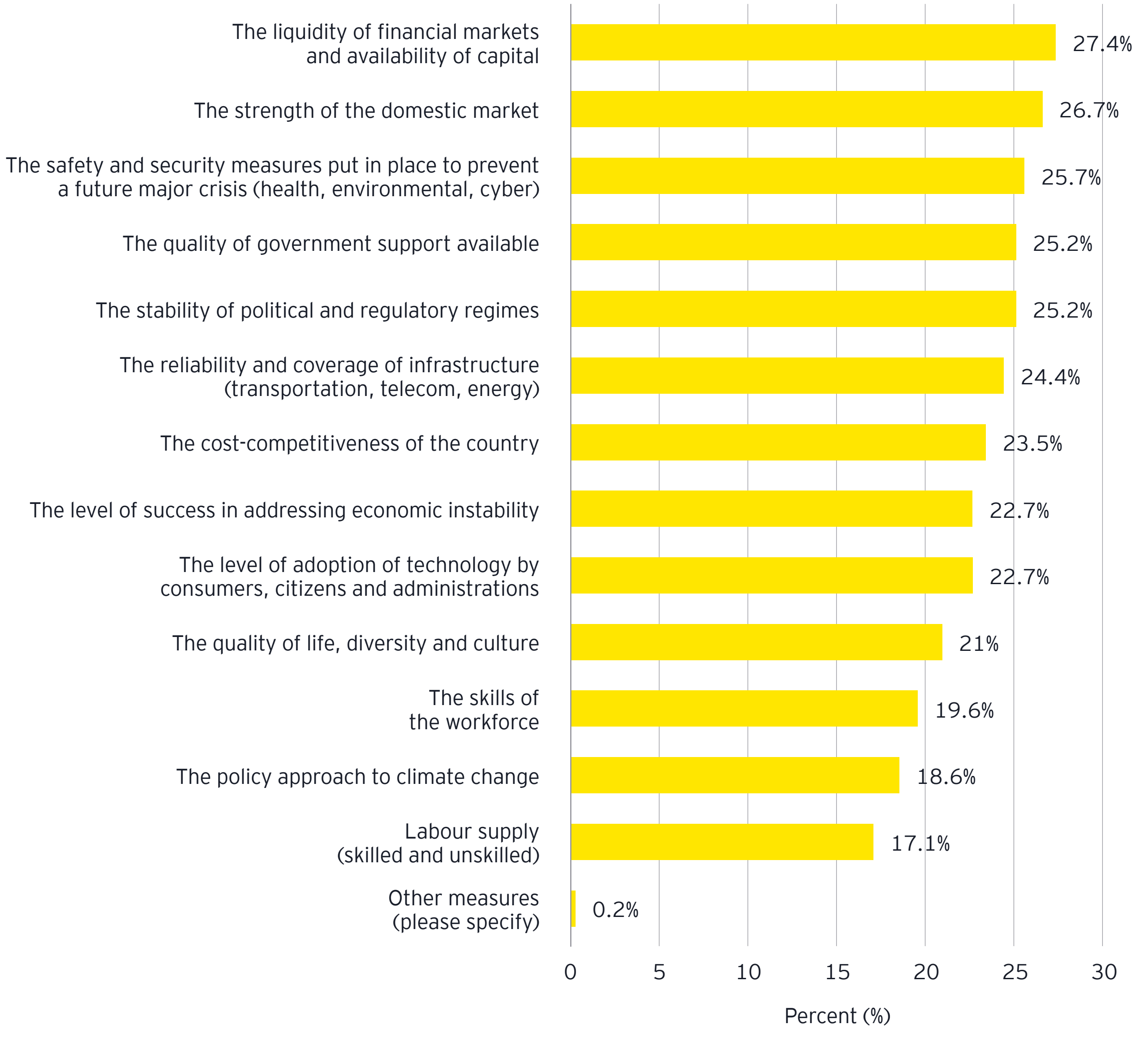
Interestingly, sustainability and climate change have slipped marginally in the rankings as prominent factors in investors' decision-making — as have health-related themes post-pandemic. It seems unlikely that these findings are pointing to a reduced emphasis on these issues. Rather they are simply underlining the magnitude of the wider economic headwinds that investors feel they're facing.

... as well as business-friendly government involvement, setting out a roadmap for national policy priorities

Turning to the appropriate policy responses to the findings of our investor survey, there are some significant variations in investors' priorities between sectors that carry important implications for the strategic sectors that UK policymakers may be targeting. For example:

- The **tech sector** sees the strength of the domestic market as the predominant factor (29.9%) influencing its investment location decisions. This appears to reflect concerns over the effects of deglobalisation, and suggests the size of each individual market is becoming more important in influencing decisions on whether to invest there. The biggest change since 2022 is the decline in the weighting attributed to healthcare-related factors (in line with the easing of the pandemic), and to the reliability and coverage of infrastructure and transport (which was previously the number one consideration). This may point to the tech sector becoming even more embedded as a sector with a heavily remote workforce.
- In the **industrials sector** the biggest factor is now access to liquidity and capital (36.7%). Respondents in this sector are also now placing a heavier emphasis than last year on the level of government support available (27.8%) — possibly pointing to some of the substantial subsidy policies and cost headwinds beginning to fuel investors' decision-making both in the UK and Europe.
- Equally, in the **finance sector**, liquidity and access to capital is the leading factor (37.5%) — but skills in the workforce is much more prevalent than in any other industry. This seems to point to future policy attention on skills attainment in this sector.

Figure 64: In your company's future location choices, what are the top three main factors that will most influence your location decision for investment?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

Geographical imbalances features increasingly heavily as a focus for investors …

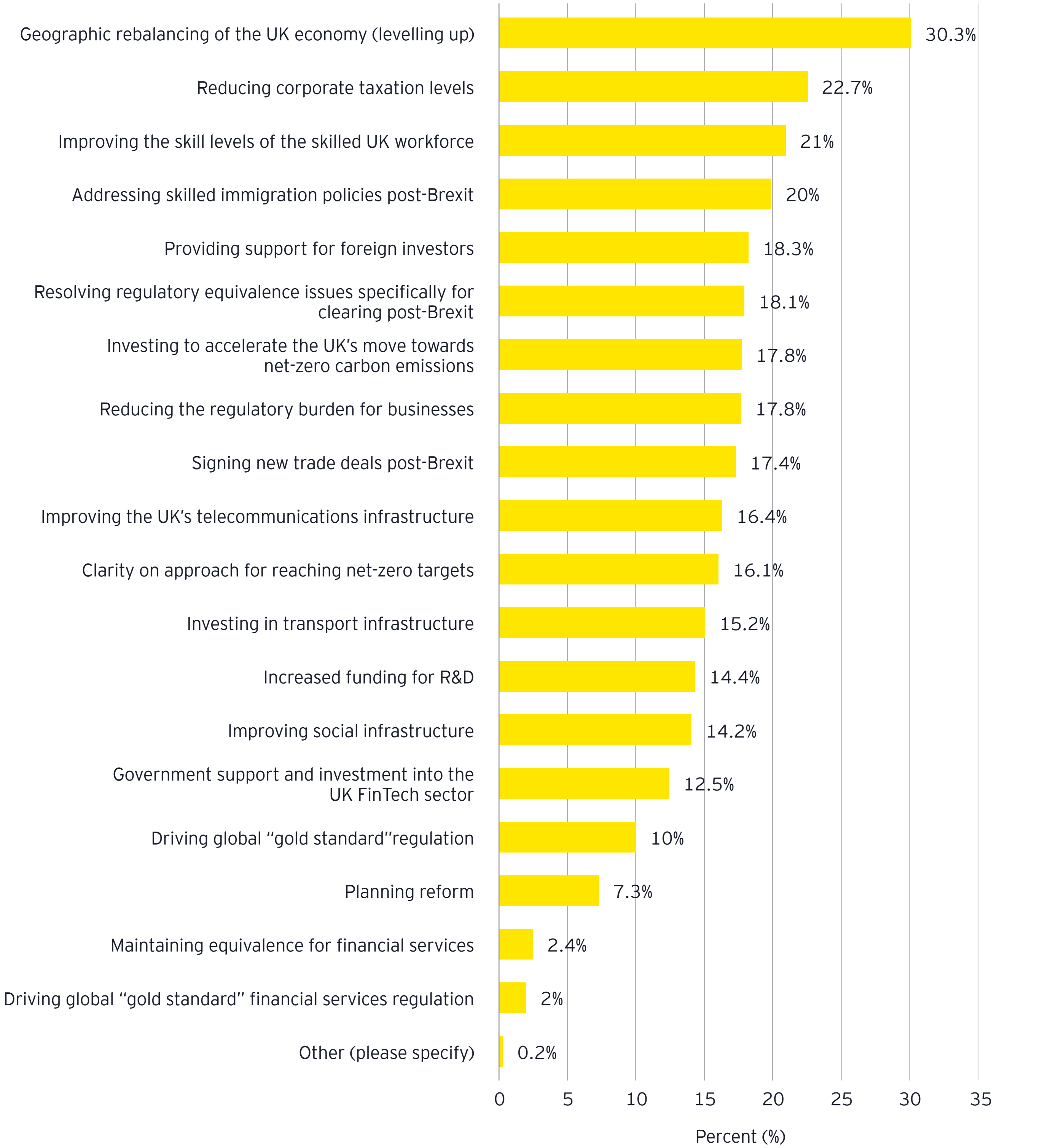
These sector priorities should be viewed through the lens of investors' evolving views on policy. When we asked them this year what domestic policy area would most improve the UK's attractiveness for investment in the future, geographic rebalancing of the UK economy ranked top — cited by more than 30%, up by 10 percentage points since last year. However, the reality is that national policy can only achieve so much — and other actions and actors are needed to drive activity in local economies and accelerate growth in key sectors.

In this context, investment zones and devolution are two important policy initiatives that play a significant role in attracting foreign direct investment (FDI) into the various areas and regions of the UK. Investment zones often offer tax breaks, streamlined regulations, access to infrastructure, and other features attractive to businesses — thus neatly bringing together several factors that investors have cited in our survey as significant inducements in attracting them to the UK. By creating investment zones, the UK government can provide a competitive advantage over potential alternative locations in other countries, making the UK a more attractive destination for FDI. The benefits for foreign investors include the ability to establish their operations more easily, expand their market reach, and take advantage of the local talent pool — in turn ultimately boosting economic growth and job creation for the UK.

Equally, devolution is allowing regions within the UK to have greater control over their economic policies, infrastructure development and investment strategies. Continued commitment to this decentralisation of power enables regions to tailor their approach to attract FDI based on own their unique strengths and priorities. As we've seen in the success of Scotland and cities such as Manchester and Edinburgh, greater local decision-making can help in creating a business-friendly environment that aligns with the specific needs and characteristics of each region. By empowering local authorities to make decisions and implement policies that support inward investment, the UK can tap into regional potential and attract diverse investment opportunities.

Looking further down the list of domestic policy priorities, it's clear there is a common workforce theme for policymakers to focus on. In our 2023 research, 21% of respondent investors say upskilling of the workforce should be a priority, and 20% cite skilled immigration policy as requiring attention. Given the UK's lingering decline in domestic workforce participation post-COVID-19 and new — and evolving — immigration regime, investors are clearly concerned about access to human resources.

Figure 65: Which of the following areas should be domestic policy priorities for the UK Government to improve the UK's attractiveness for investment in the future?



Source: *EY UK Attractiveness Survey 2023* (409 respondents)

... and investors remain very open to investing outside the capital ...

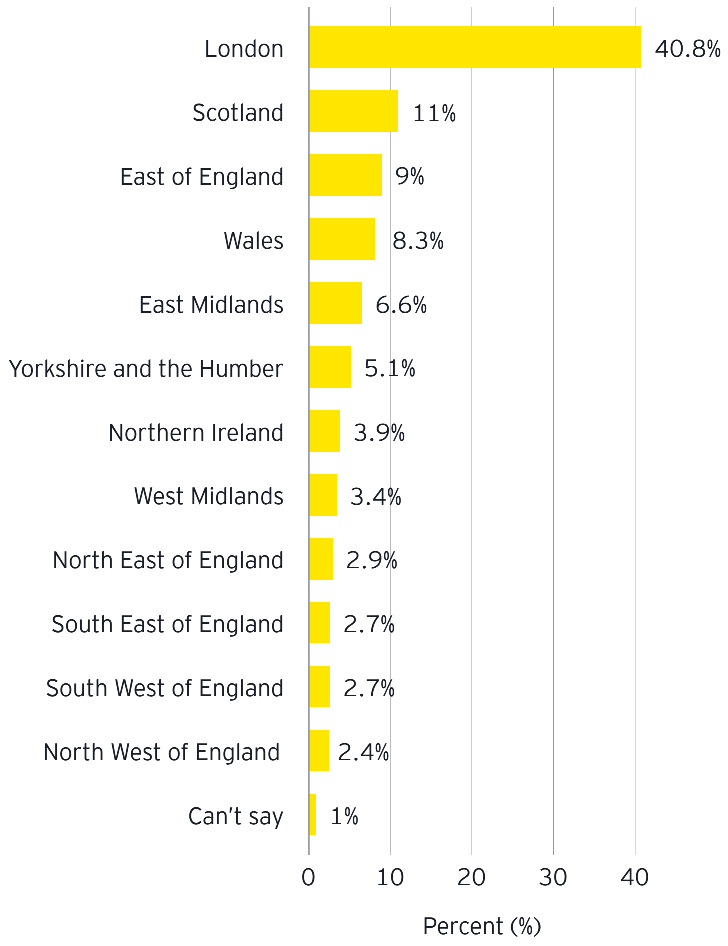
The downward shift since 2019 in London's share of UK FDI projects is reflected in our investor survey data. Our 2023 findings show that in terms of regional preference, London is top choice by attractiveness (41%), and that 43% across all sectors plan to establish or expand operations there. Outside the UK capital, Scotland is in clear second place for attractiveness — please see the accompanying "Spotlight on Scotland" section for a more detailed analysis.

Looking across the UK, there are some sectoral variances worth noting: in terms of perceived attractiveness in the chemical and pharmaceuticals sector, there is an even split between London (23%), the East Midlands (23%), and the East of England (23%), but this is not reflected in plans to establish or expand operations. What also shines through is that some regions are clearly doing something right in terms of investor perceptions. A case in point is the East of England, up from seventh place on 5.2% in 2022 to third place on 9% in 2023. Significant gains have also been made in 2023 by Wales (up by 1.1 percentage points) and Northern Ireland (up by 2.1 percentage points).

As we noted last year, truly levelling up the UK will require more to be done in terms of the English North and Midlands. The fact that their results in terms of projects secured continue to run ahead of sentiment points to a need to get the message out, particularly to the 'new' first-time investors that the UK is so successful at attracting. The 2022 performance in attracting investment to regions and cities has been positive despite patchy investor perceptions — so there are issues to be tackled around investment promotion.

> The downward shift since 2019 in London's share of UK FDI projects is reflected in our investor survey data.

Figure 66: Which region in the UK do you see as the most attractive to establish operations?



Source: *EY UK Attractiveness Survey 2023* (409 respondents)

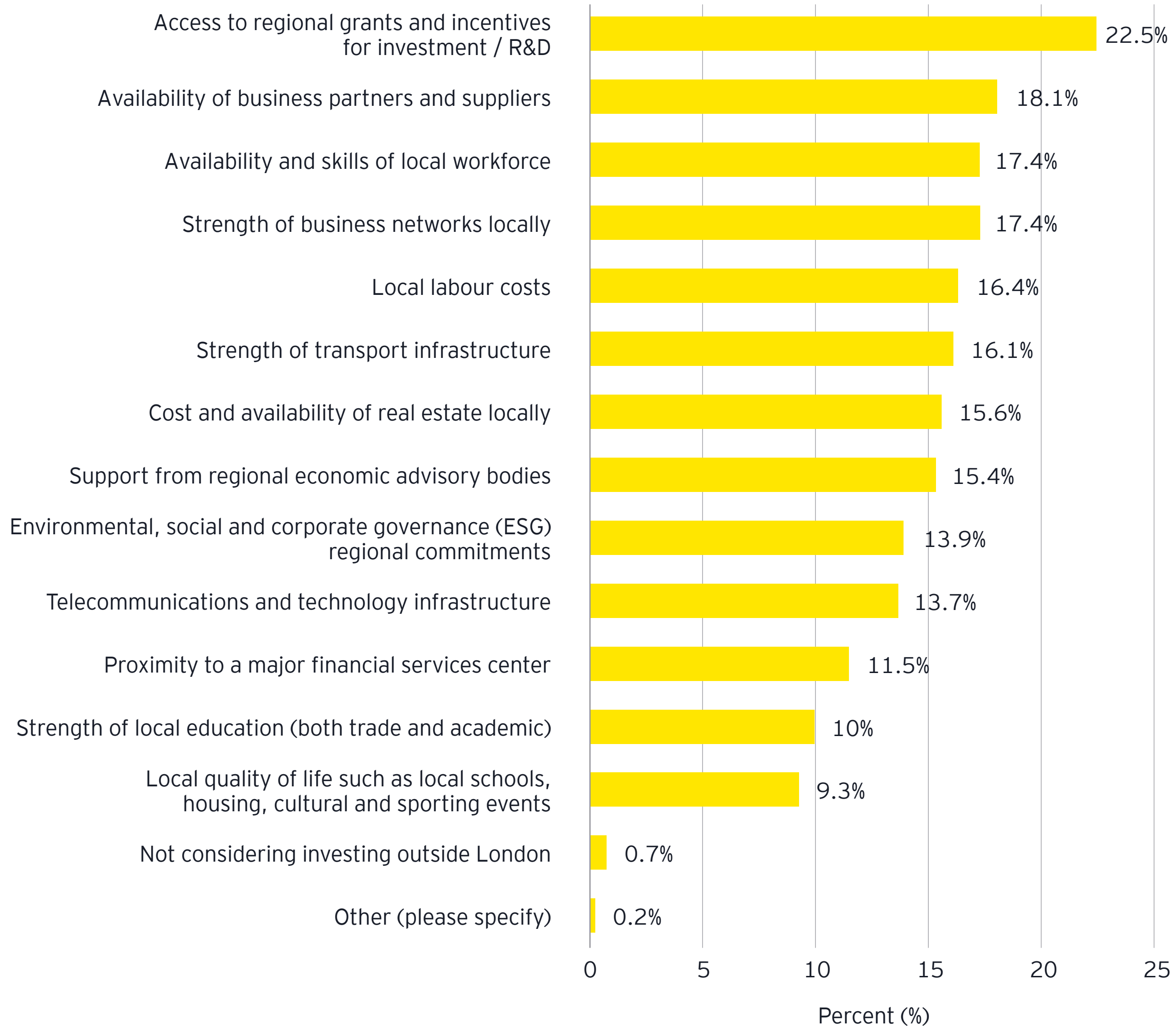
... while citing a number of distinct priorities to enable regional investment

When we ask investors about the factors influencing their choice of location when considering investing in regions outside London, a different set of priorities emerge compared to those that drive their decisions at the national level.

Most strikingly, access to grants and incentives now leads the way at a regional level, cited by 22.5% of respondents. This is probably to be expected, considering the nationwide priority of accessing liquidity and capital alongside the much larger role government is playing in funding investment across Europe. It is also noteworthy that skills and infrastructure (including both technology and telecoms) are continuing to rank near the top of the list of priorities year after year. In 2023, reference to skills has fallen from 27% to 17.4%, possibly reflecting a cooling labour market. This is accompanied by a similar decline in the ranking of labour costs, which has returned to a much more typical score of 16.4% after spiking to 23.5% in 2022.

Other key factors at regional level are the prominence of local business networks, assistance from regional economic development organisations, and the affordability of local properties. The type of support needed to thrive within a specific region of any country has a distinct local character, differing from the considerations involved in selecting the country. This bifurcation of priorities demands the devolution of power and responsibility to foster the development of local ecosystems, instead of attempting to centralise all decision-making and implementation in London. Policy design should embrace a layered approach that acknowledges these variations.

Figure 67: What are your investment criteria when considering investing in the regional locations outside of London in the UK?



Source: *EY UK Attractiveness Survey 2023* (409 respondents)

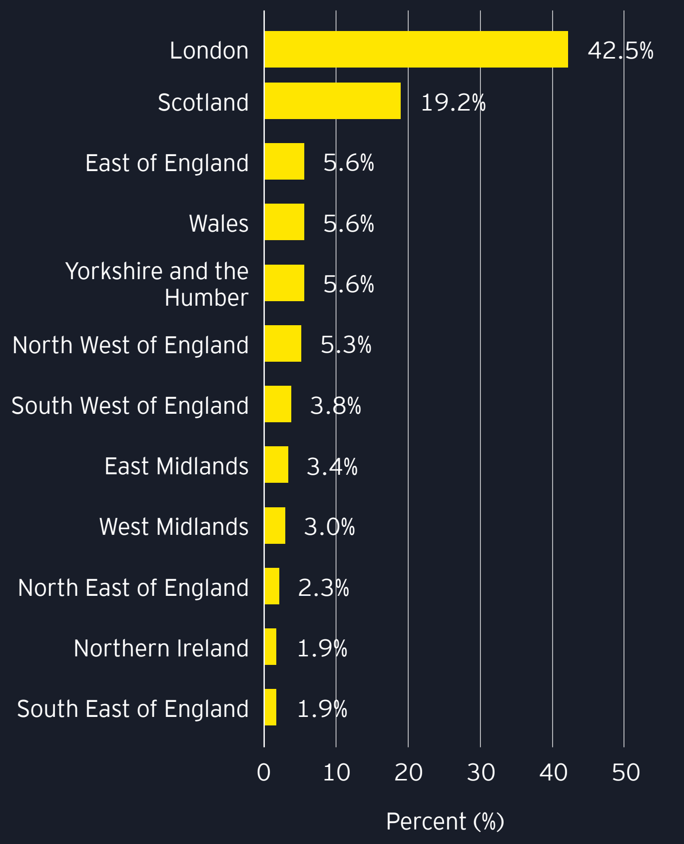
Spotlight on Scotland: investor perceptions give further grounds for optimism on future FDI

As we noted earlier in this report, in 2022, Scotland successfully cemented its position as the UK investment location of choice outside London. It did so by securing a 3.3% rise in projects to a record 126 investments – its fourth successive annual increase – in year where projects into the UK overall fell by 6.4%. This performance far outpaced all other FDI locations in the UK apart from London, well ahead of next-placed North West England on 88, and took Scotland's share of UK projects to its highest ever level at 13.6%. Scotland's strong showing in 2022 means it has now secured the second highest number of projects outside London in nine of the past ten years.

The findings from our 2023 survey of investor perceptions shed an interesting light on Scotland's consistent strength in attracting FDI – and go a long way towards helping to explain it. Asked which region of the UK they see as the most attractive in which to establish operations, 11% choose Scotland, again – as with the FDI project figures – ranking it in clear second place behind London. There are a couple of caveats here, in that Scotland's 2023 attractiveness score of 11% is down from 15.8% last year, and that its lead over the next-placed UK region has narrowed. But the reality is that third place tends to go to a different region each year, and Scotland is consistently second behind London. (See chart "Which region in the UK do you see as the most attractive to establish operations?" on page 80.)

There's an even stronger vindication of Scotland's appeal to inward investors in the findings on investors' intention to invest. This year, some 65% of the investors we surveyed said that they were planning on making an investment in the UK in 2023 – the highest level ever recorded in this research. And a lot of those investment intentions are focused on Scotland. Asked which part of the UK they're targeting as a destination for FDI, fully

Figure 68: In which part of the UK are you planning to establish or expand operations?

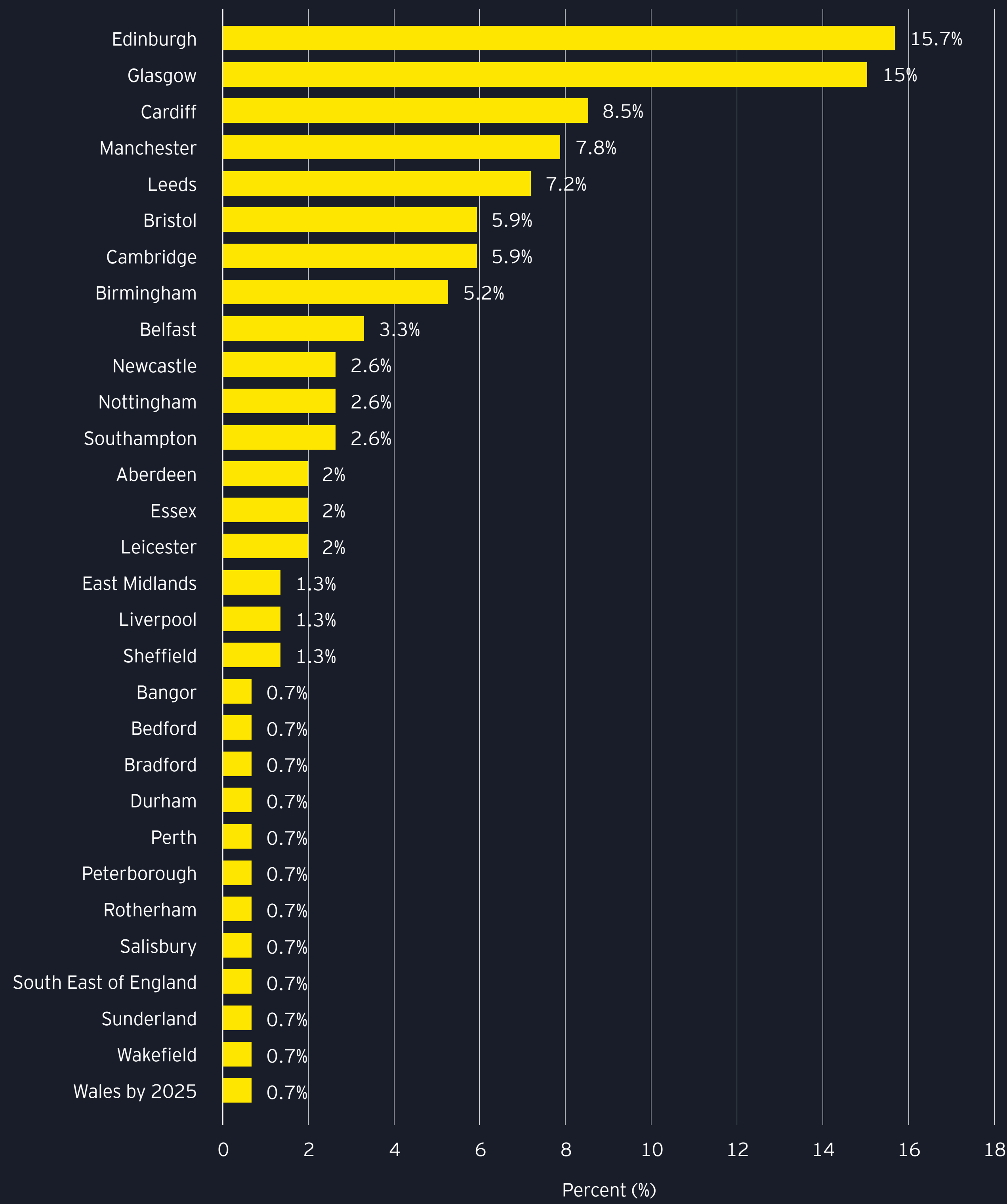


Source: *EY European Attractiveness Survey 2023 – United Kingdom*

19.2% cite Scotland, a figure that is once again second only to London and almost four times the score of a clutch of regions in joint third place.

We also asked these investors which UK city they were planning to invest in – and again their responses bode well for Scottish FDI. A major engine of Scotland's success in attracting FDI over the years has been the magnetic lure of its 'big three' cities: Edinburgh, Glasgow and Aberdeen. All three are consistently ranked within the UK's top ten cities for FDI projects, and Edinburgh is one of only two UK cities – along with Manchester – to have recorded more than 30 projects in each of the past three years. Among the investors planning to invest in the UK this year, Edinburgh and Glasgow each attract 15% of the votes to claim the top two places by a wide margin, with Aberdeen ranking in a healthy 13th place.

Figure 69: In which UK city are you planning to establish or expand operations over the next year?



Source: *EY European Attractiveness Survey 2023 – United Kingdom*

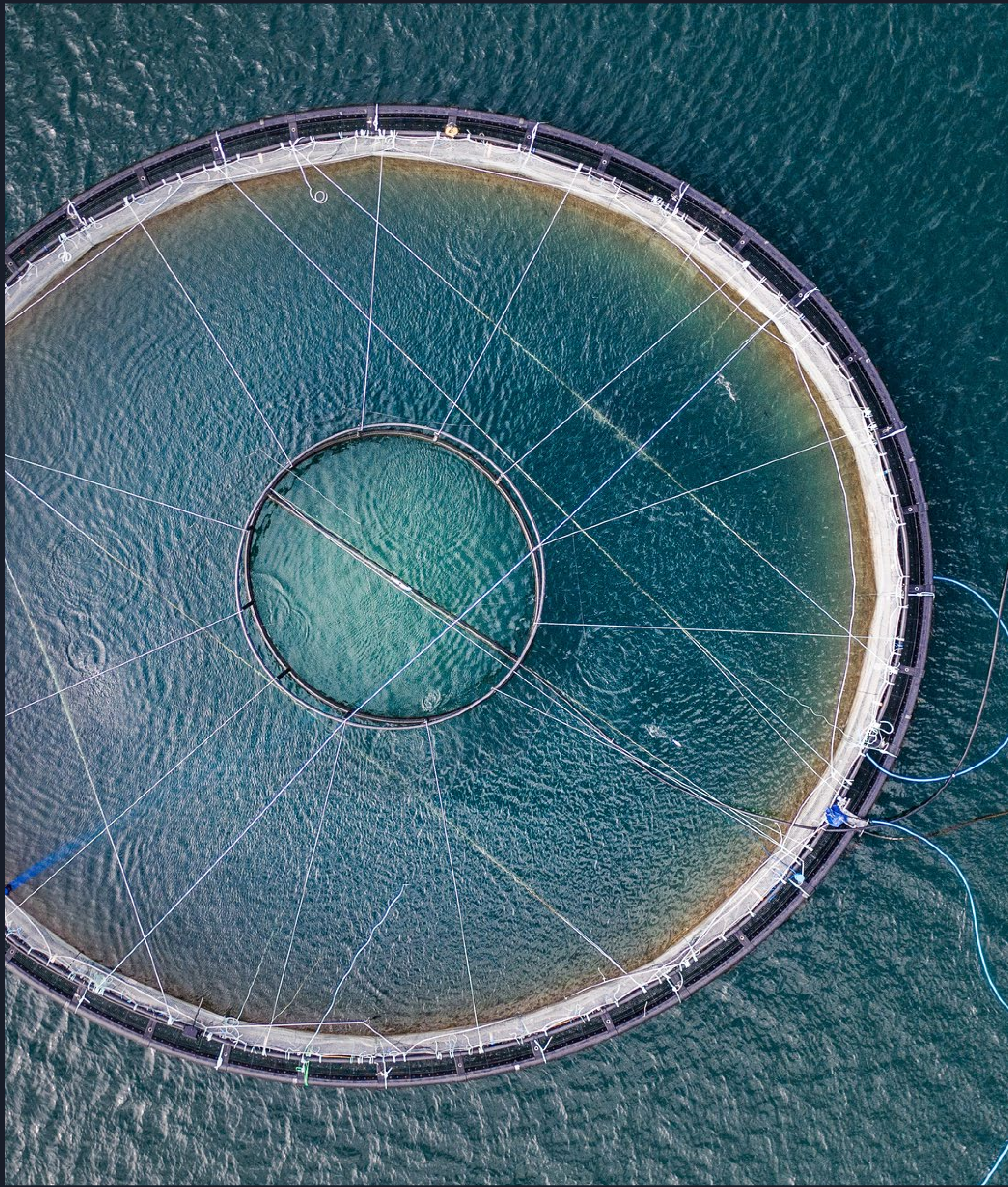
These findings point to the likelihood of another buoyant year for Scottish FDI in the 2023. And positive indicators for the longer term are provided by the top criteria that investors tell us they apply when considering investing in UK locations outside London. At the top of the list are factors such as access to regional grants and incentives, the ready availability of business partners and suppliers, and the local skills base. Scotland is well-placed to compete strongly on all of these criteria. And in Scottish Development International it has a trade and inward investment agency that's committed to fighting its corner and responding to investors' needs, goals that are also actively supported by the Scottish Government. (See chart, "What are your investment criteria when considering investing in the regional locations in the UK outside of London?" on page 81.)

Finally, a wider look at the investor perceptions across sectors and sources of growth provides further encouragement for Scotland. The top five sectors that investors expect to drive the UK's growth in the coming years include financial services, software & IT services, business & professional services, telecoms, consumer products, and pharmaceuticals. These are all sectors where Scotland has proven strengths, ranging from its world-renowned financial services industry to its success in attracting 27 R&D projects in 2022 — its biggest haul since 2015. And with well over half of the companies surveyed saying that ESG issues are among their top three priorities at board level, Scotland's leading position in sustainability and cleantech offers a real competitive advantage.

Overall, the historical EIM figures on incoming projects in 2022 confirm that Scotland has been continuing to punch above its weight in the fight for UK FDI. And our findings on investors' perceptions indicate clearly that it can continue to do so in the future. Traditional strengths in Scotland like a strong manufacturing base and an advanced oil and gas sector need to be utilised as sectors with highly skilled workforces and supply chains which can have mutual benefit to the investment pouring into the renewables and utilities sector in Scotland. Also, given that Scotland has a tighter labour market and slower-growing population than the UK as a whole, a focus on skills and capitalising on allied sectoral strengths will be important — especially since investors consistently rank access to skills and labour as important to their investment location decisions.

Having performed so well in recent years, with four successive annual increases in projects, the challenge now facing Scotland is to capitalise on the positive perceptions, and maintain the momentum in the years and decades to come.

> These findings point to the likelihood of another buoyant year for Scottish FDI in the 2023.



Executives believe low-carbon housing and EV and battery technology will drive cleantech growth in the UK ...

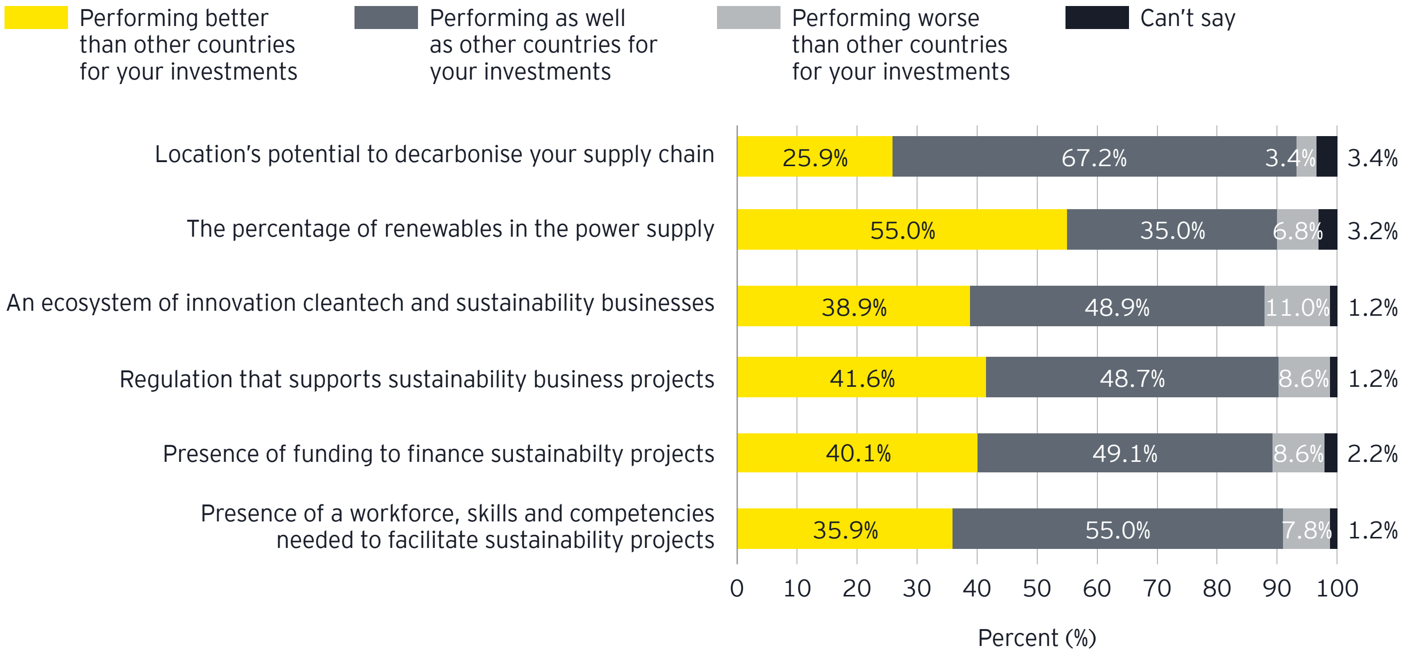
Turning to the UK's sustainability credentials, executives in our study felt the UK ranked better on sustainability than it did on attractiveness and competitiveness. The UK polled highly in third place in Europe – with high results for 'better' or 'as well as' – on several counts: potential for decarbonising the supply chain, percentage of renewables in the electricity supply, and an ecosystem of innovative cleantech and sustainability businesses. All of these findings point to areas that policymakers can capitalise on in the years ahead.

What's clear is that cleantech will remain a crucial factor in attracting inward investment into the UK due to its immense potential to help drive economic growth, environmental sustainability and global competitiveness. As the world increasingly prioritises sustainability and tackles climate change, businesses are actively seeking investment destinations that support and foster clean technologies. By positioning itself as a hub for cleantech innovation, the UK can attract investment from companies seeking to develop and deploy renewable energy solutions, sustainable infrastructure, energy-efficient technologies, and low-carbon transportation systems.

Such investments not only contribute to the global effort in mitigating climate change, but also serve to boost job creation, stimulate economic activity, and create opportunities for collaboration and knowledge sharing. Moreover, embracing cleantech helps the UK reduce its own carbon footprint, enhance energy security, and transition to a more sustainable and resilient economy. By championing cleantech initiatives and providing a supportive ecosystem for clean technology development, the UK can attract inward investment from companies looking to align their operations with sustainable practices – an issue we singled out above as an increasingly prominent agenda item for investors' boards.

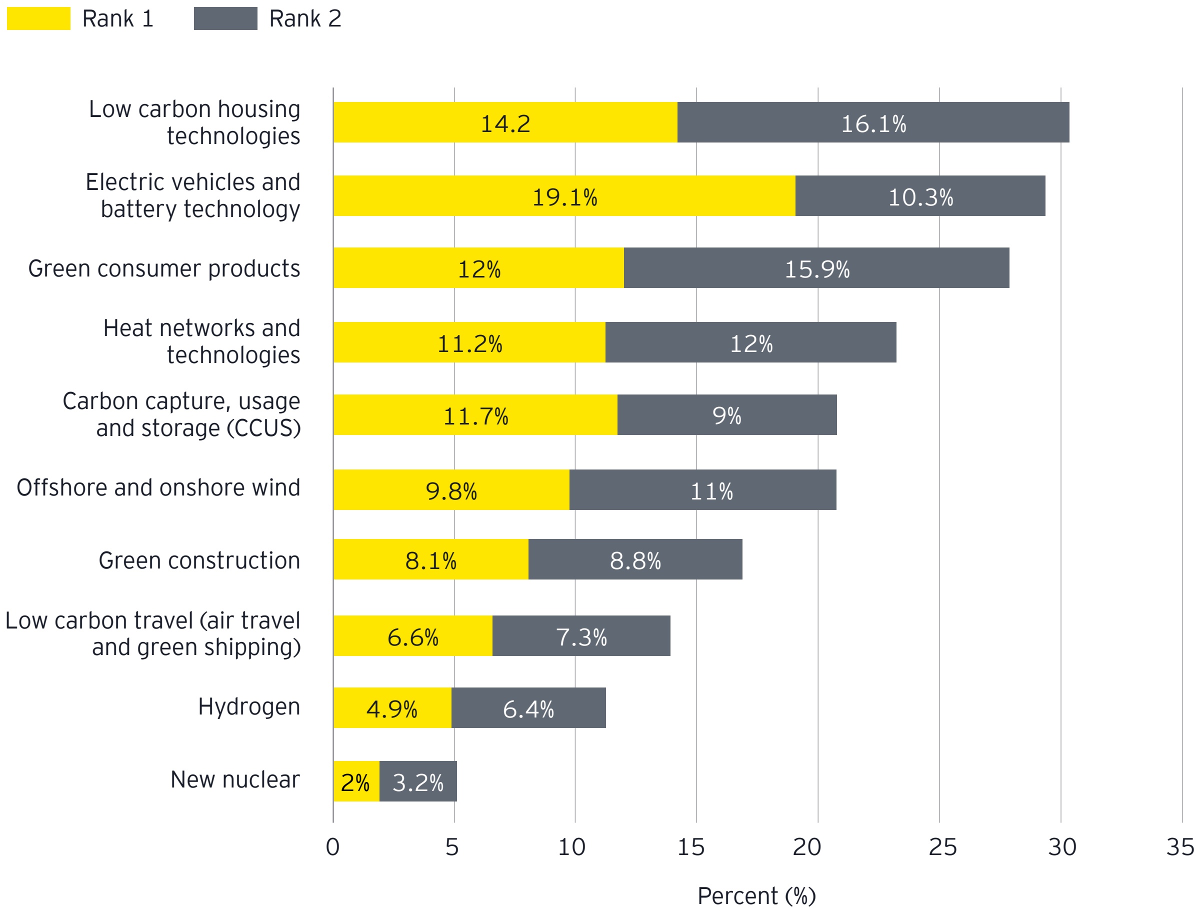
Overall, the goal should be to make the UK not just a great place to deploy sustainable technologies and infrastructure, but also to build them.

Figure 70: In your view, how does the UK perform with regard to the following sustainability-related factors?



Source: *EY European Attractiveness Survey 2023 – United Kingdom*

Figure 71: 'In your view, what are the top two growth areas for cleantech investment in the UK?'



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

… and business-friendly digital policy should continue to support the UK's FDI success

As we've highlighted in previous years, digital investments will remain pivotal to the UK's future success — and despite its sustained strong showing in terms of European market share of digital projects, the UK is seeing that share decline over time.

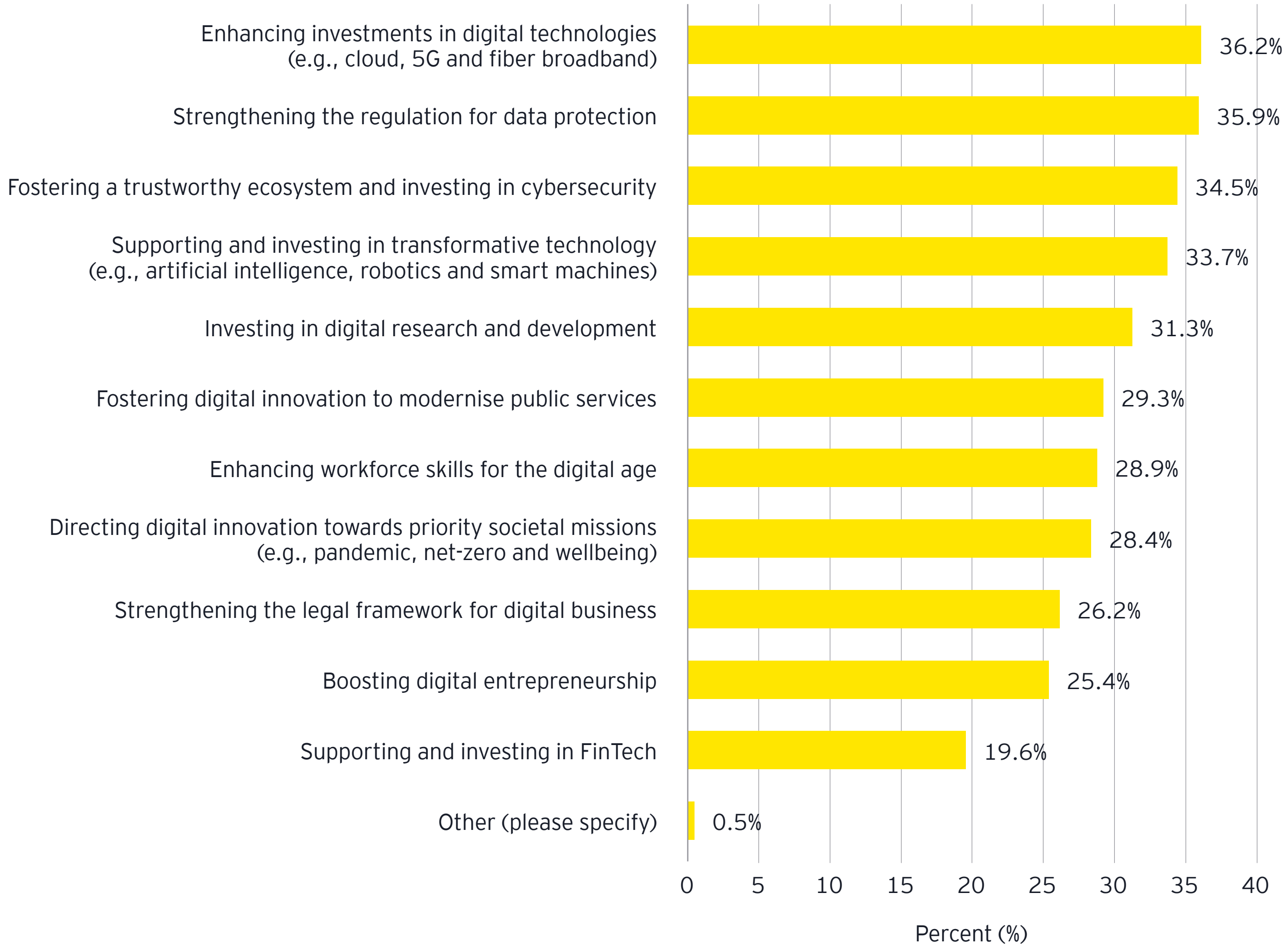
> Digital investments will remain pivotal to the UK's future success.

It's notable that, within the digital transformation space, investors have revised some of the key policy areas where they think the UK Government should concentrate its efforts. However, much of this change appears to be related to the difficult economic conditions in the tech sector in the past year. For example, investing in R&D has slumped from top place as a policy goal with 49.5% in 2022 to fifth on 31.3% in 2023. This decline may be a specific effect of the belt-tightening now underway in the tech sector. While priorities including enhancing cloud, 5G and fibre infrastructure have risen to lead the ranking this year on 36.2%, this score represents a marginal increase of only 0.7% on 2022. So it seems likely that some of the more capital and liquidity-friendly priorities of last year have simply been deprioritised in the face of more immediate challenges. Also, issues such as strengthening data protection regulation or fostering a trustworthy ecosystem and investing in cyber security are overarching investment goals that remain high on the agenda every year.

Digital transformation plays a crucial role in attracting inward investment into the UK due to its ability to enhance competitiveness, productivity, and innovation. In today's digital age, businesses are increasingly seeking locations that offer advanced digital infrastructure, a workforce skilled in emerging technologies, and a supportive environment for digital innovation. By prioritising digital transformation, the UK can position itself as an attractive investment destination. A strong foundation of digital infrastructure, including high-speed internet connectivity and reliable telecommunications networks, is essential for businesses to operate efficiently and effectively. Additionally, investing in the development of digital skills ensures the availability of a talented workforce capable of driving innovation and adopting new technologies. Embracing digital transformation also enables businesses to leverage emerging technologies such as artificial intelligence, big data analytics, and the Internet of Things, leading to increased efficiency, cost savings, and competitive advantages.

The overall message? By fostering a digitally-enabled ecosystem, the UK can continue to attract inward investment projects from companies looking to capitalise on digital capabilities and thrive in the global digital economy. In the current economic climate, it's likely that lower-cost solutions — such as regulatory competitiveness and freedom, business-friendly legal frameworks, and the promotion of a highly innovative environment — will feature heavily in policy strategies ahead.

Figure 72: Digital transformation is creating opportunities for UK businesses. Where should the UK Government concentrate its efforts?



Source: *EY UK Attractiveness Survey 2023 (409 respondents)*

Conclusion: time for the UK to play to its strengths

The period covered by this year's UK Attractiveness Survey has undoubtedly been challenging for the UK – and indeed other European countries – seeking to attract and secure FDI. With UK projects slipping back against the background of a slight increase across Europe, and the UK's headline attractiveness score among investors also showing a decline, it would be easy to take a pessimistic view of the findings. However, a closer examination confirms that – in the context of a hugely turbulent year both economically and geopolitically – the UK has actually put in a resilient performance that gives it a solid base to build on for the future.

Why do we say this? Tellingly, a drill-down enables each of the apparently negative findings to be countered with more detailed insights that cast a more positive light. Take the overall fall in UK project numbers: this partly reflects the UK's deliberate shift in focus from volume to value, as underlined by its continued lead in Europe on FDI jobs and success in securing more R&D projects. Or the slump in projects into London – which probably reflects a Europe-wide slowdown in digital projects, plus some catch-up by other European Locations, and has been partly offset by some strong performances in the regions. Or the UK's lower overall attractiveness score, which was accompanied by a record number actually intending to invest here.

Therefore, despite the headline fall in projects – the UK's attractiveness to global investors remains strong. As well as retaining second place in Europe as a recipient of projects, it continues to score highly among investors on traditional strengths such the size of its domestic market, educational standards, and its quality of life and diversity. However, there is no room for complacency. Instead, what's needed is a carefully-considered policy approach aimed at building on the UK's robust fundamentals and at the same time being honest about where attractiveness has declined (e.g. access to the EU Single Market), with a focus on attracting projects that maximise the economic value they bring to the UK.

> The period covered by this year's UK Attractiveness Survey has undoubtedly been challenging for the UK.

What does such a policy look like in practice? As a first step, it means providing clarity on the policy direction, rules and regulations for the strategic sectors and activities that the UK wants to prioritise – the likes of digital tech, renewables, pharma/life sciences, finance, manufacturing and R&D – and then ensuring the UK's incentives and wider offer, both at a national and regional level, are fully aligned with what those investors are seeking. As our perception findings show, a key part of what they are seeking is continuing certainty and stability, combined with positive reasons to locate here – including the right infrastructure, skills and business-friendly regulation. All of this is within the UK's grasp. It's time to make it happen.

The perceived attractiveness of the UK and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by Euromoney in March and April 2023 via online interviews, based on a representative panel of 440 international decision-makers.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognised by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyses both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
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