



Battling back

EY Attractiveness Survey
Scotland

May 2020



Building a better
working world

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We are delighted to welcome you to the 2020 Scotland Attractiveness Survey, which – as in previous years – examines the evolving performance and perceptions of Scotland as a destination for foreign direct investment (FDI).

This report continues EY's long history of sponsoring research into UK trade and investment, including FDI, reflecting our desire to encourage an open dialogue between business leaders, investors and policymakers on how to maximise Scotland's – and the rest of the UK's – economic performance.



Foreword



Ally Scott
Managing Partner
EY Scotland

The 2020 EY Scotland Attractiveness Survey reveals a welcome rebound in FDI projects last year following a decline in 2018. While this increase pre-dates the COVID-19 crisis, it suggests Scotland has a solid base from which to sustain its flow of FDI in a post-pandemic world.

Strength in diversity

A closer look supports this view. As in previous years, Scotland has continued to attract projects from a wide range of countries, sectors and activities. This diversity should stand the country in good stead in the more challenging environment now in prospect.

The strength of FDI into non-services related activities such as manufacturing and research & development is a further sign of diverse inflows, with machinery & equipment replacing business services as Scotland's top FDI sector in 2019. The rise in headquarters projects points to long-term commitment and is, in itself, obvious testament to the relative attraction of setting up business here.

We've also seen the average number of jobs announced per project rise to its highest since 2011 – especially welcome as we approach a more unstable employment environment. And as the UK prepares to leave current transition arrangements with the EU, the continued strength of US FDI into Scotland and the importance of strong US/UK trading relationships, is another positive.

A time for engagement

But there's no room for complacency. While our research amongst investors paints a relatively bright picture about their continued intentions to invest, the ongoing decline in new investment projects into Scotland, with a bias instead more towards follow on investments, is an underlying concern.

Overall, there's never been a more important time for business to engage with both UK and Scottish Government around the economic stimuli needed to ride out the inevitable post COVID-19 decline in activity. In an increasingly digital and low-carbon world, policy choices should include a focus on key future sectors and skills.

As our figures confirm, in 2019 Scotland has once again preserved its strong status as the most attractive UK location for FDI, outside London, the challenge now is to ensure it stays that way.



Mark Gregory
Chief Economist
EY UK

The UK as a whole had a strong year for FDI in 2019, with its projects secured increasing by 5.2% over 2018. Scotland had an even stronger one, with projects rising by 7.4% – regaining much of the ground lost the previous year.

This resurgence resulted in an increase in Scotland's market share of all UK projects, and consolidated its longstanding ranking as the UK's second biggest FDI 'region' after London.

Impressive performance

Scotland's strong showing in attracting projects in 2019 was in stark contrast to a mixed showing across other areas of the UK outside London. While projects into London leapt by 17.5% to their highest in the past decade, the rest of the UK suffered a decline in projects of 4.2%. This makes Scotland's rise in projects all the more impressive.

A closer look at the figures reveals several other bright spots. For example, employment generated by Scottish projects that announced job figures totaled more than 6,400, lifting Scotland from fifth to second in UK FDI job creation. And Scotland's three main FDI cities – Glasgow, Edinburgh and Aberdeen – all secured more projects and strengthened their position in the UK's top 10.

Grounds for optimism

The findings from our research among investors also provide some grounds for optimism at a difficult time. Investors were planning significant investment in the UK in 2020 before the COVID-19 pandemic struck, and they remain relatively optimistic about the UK's resilience and future potential. Digital tech, climate change and health were cited as high potential opportunity sectors over the long term.

Investors also provided a clear steer on what future policy should focus on – the availability of finance and government support, and the quality of infrastructure and skills, were factors identified as key to driving future investment.

Notwithstanding the current challenges, we believe these findings provide the UK with the opportunity to build on its proven strengths by implementing responses aimed at securing its long-term attractiveness to investors. In this year's report, we suggest a set of policy steps to help achieve this, as the UK develops its new post-EU economic identity. We at EY look forward to supporting and participating in that renewal.

What next?

Scotland's robust performance in attracting FDI projects in 2019 – with rises both in number of investments and market share of all UK projects – puts it in a relatively strong position as we approach the post COVID-19 world. Our survey of investors' plans shows that investment intentions into the UK were running at a ten-year high ahead of the outbreak, with Scotland – firmly established as the UK's second most attractive FDI location – well placed to benefit.

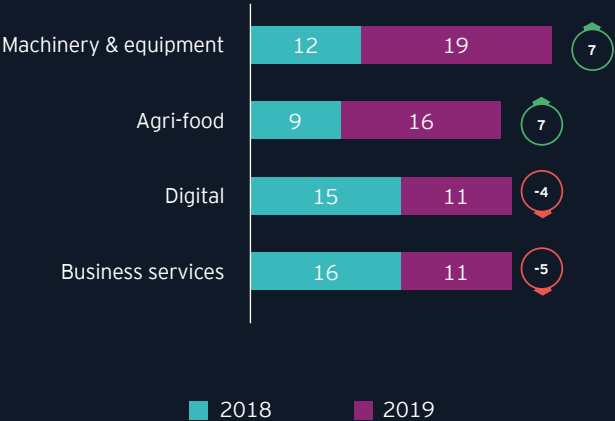
While the onset of COVID-19 has curtailed those investment plans to a degree, our research among international investors shows that the UK's – and, by extension, Scotland's attractiveness to FDI is relatively less exposed to the shock of the pandemic than the rest of Europe. Also, with investors expressing a preference for large UK cities other than London as FDI locations, the continued presence of Edinburgh, Glasgow and Aberdeen in the ranking of the UK's top ten FDI cities outside London bodes well.

The goal now should be to focus on the optimal combination of sectors, skills, infrastructure and incentives to grow Scotland's inflow of projects still further. The opportunity is clear – and Scotland can continue to seize it in the years to come.

Scotland's FDI performance in 2019: increased number of projects, faster growth than the UK and expanded share of UK projects

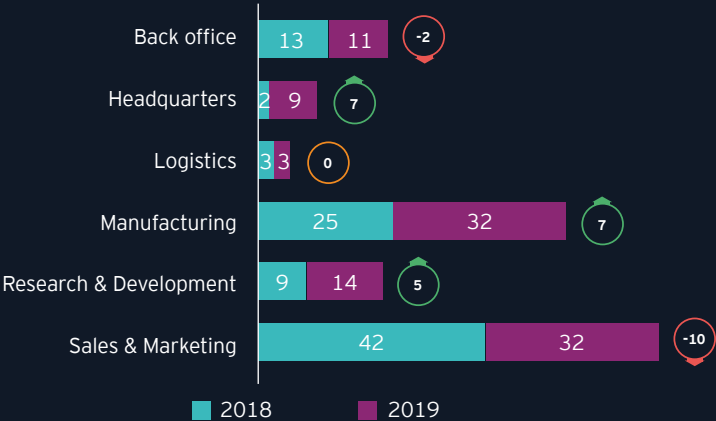
Sectors

The two leading sectors generating inward investments into Scotland in 2019 were machinery & equipment and agri-food. These sectors overtook last year's top two, digital and business services, both of which declined in 2019.



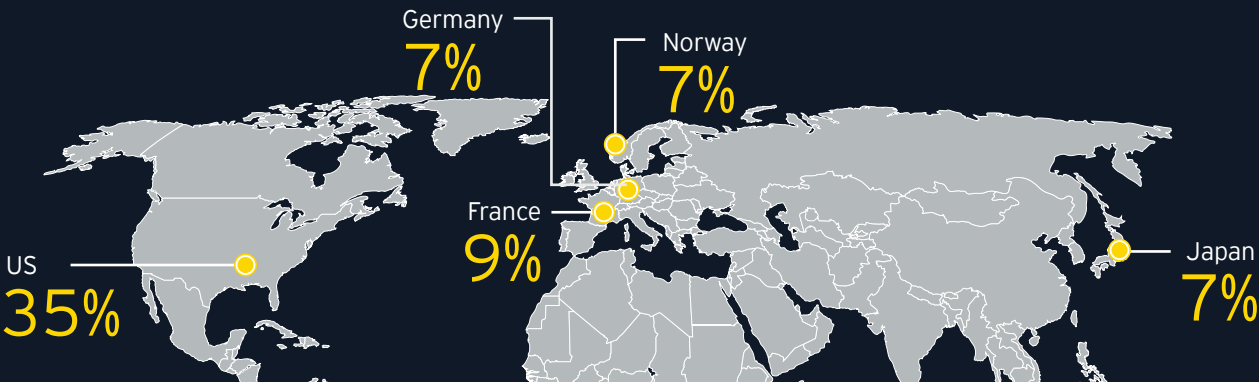
Activities

With manufacturing projects rising, and sales & marketing falling, these two sectors topped the list of Scottish FDI activities in 2019. Research & development (R&D) projects rose up to take third place. The biggest percentage increase was in headquarters (HQ) projects, which increased by 3.5 times from 2018 to 2019.



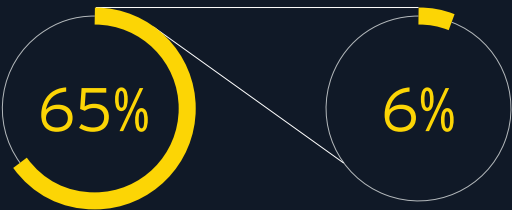
Origins

In 2019 the US remained the single biggest originator of FDI projects into Scotland – slightly above the proportion for the UK as a whole. France was the second biggest source of projects into Scotland, contributing 9% into Scottish projects, compared to just 4.5% into UK projects.



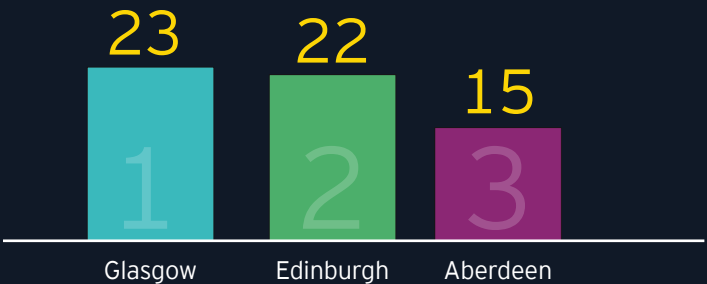
Resilience of UK investment plans

The majority of the projects planned for the UK are still going ahead – in light of COVID-19 – including 6% who had actually increased their investment in light of COVID-19.



Scotland's top FDI cities

Scotland's 'big three' cities all recorded a higher number of projects in 2019.



Executive summary

Key findings from 2019

- ▶ Scotland retains its position as **second** to London in attracting new FDI projects into the UK.
- ▶ **101** inward investment projects were secured in Scotland in 2019, up by seven (7.4%) from 94 projects the previous year.
- ▶ The increased FDI flow saw Scotland's share of all UK projects rise to **9.1%** from 8.9% in 2018.
- ▶ Scotland's 'big three' cities (Edinburgh, Glasgow and Aberdeen) remain in the **UK top ten cities** outside of London for attracting projects.
- ▶ Top countries for FDI in Scotland are the **United States** and **France**, followed by **Germany**, **Japan** and **Norway** in equal third place.
- ▶ The top three sectors generating the highest numbers of inward investment projects in Scotland are **machinery & equipment** and **agri-food**, followed by **digital** and **business services** in equal third place.
- ▶ Scotland's top FDI activities are **sales & marketing** and **manufacturing** in equal first place, with **R&D** third.

Investor perception

- ▶ Ahead of the COVID-19 pandemic, 31% of investors said they were planning FDI projects in the UK in the coming year – the highest proportion in the past decade.
- ▶ Despite the outbreak of COVID-19, investors say 65% of these projects are going ahead.
- ▶ When choosing an investment location, the factors that investors rank as most important post COVID-19 are:
 - 1 The liquidity of financial markets and availability of capital
 - 2 The skills of the workforce
 - 3 The quality of government support they can access





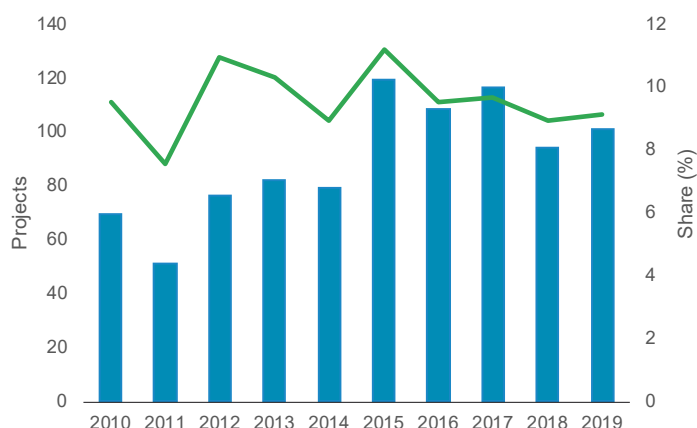
Now: Scotland's FDI performance in 2019

A strong showing, outpacing the UK overall ...

Scotland put in a robust performance in securing FDI projects in 2019, recording a healthy rise in projects numbers that outpaced the increase seen across the UK as a whole. During the year, Scotland secured 101 projects – a rise of seven projects or 7.4% from the 94 projects recorded in 2018. This performance partially reversed the 19% fall in FDI projects that Scotland suffered in 2018, and was a marginally higher increase than that achieved by the UK overall, which saw a rise of 55 projects or 5.2% to 1,109 projects, from 1,054 the previous year.

The faster increase recorded in Scotland than the UK as a whole resulted in Scotland's share of all UK projects rising to 9.1%, from 8.9% in 2018. While this percentage was slightly below Scotland's average share of 9.4% of UK FDI projects over the past decade, in absolute terms the 101 projects recorded in 2019 represented the nation's fourth highest total during that period. With London strengthening its market share and extending its lead over other areas of the UK, Scotland retained its position as the second most important 'region' for UK investment after London – a ranking it has held in every year since 2014.

FDI projects announced in Scotland and percentage market share of UK projects 2010-19



Source: EY European Investment Monitor (EIM), 2020.

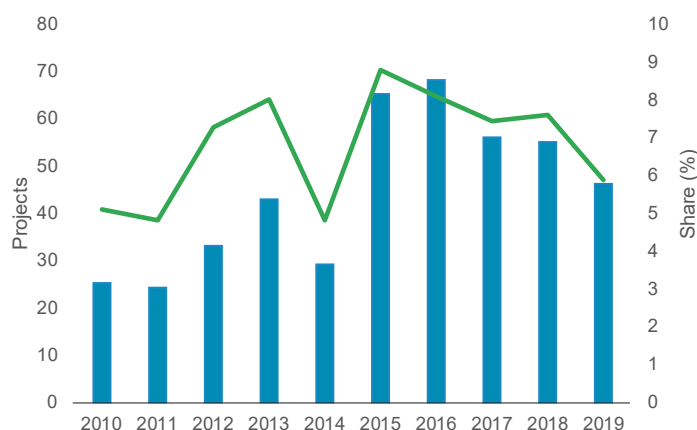
... but losing ground in 'new' projects

However, stripping out follow-on investments in existing facilities, the picture on 'new' projects from first-time investors is less positive for Scotland. The number of new projects recorded in Scotland fell by nine projects or 16.3% between 2018 and 2019, pushing Scotland's market share of all new UK projects down from 7.6% to 5.9%. In absolute terms, the number of new projects recorded in 2019 was Scotland's lowest since 2014. This also continued a downward trend: new investments into Scotland have fallen in every year since the 2016 Brexit referendum.

Scotland's declining performance in securing new investment projects in 2019 was not mirrored across all other areas of the UK. While new projects into the North East of England and Northern Ireland were down sharply, by 34.7% and 33.3% respectively, the number of new projects fell by only 5.8% in the West Midlands, and every other UK region either increased or maintained its number of new projects secured. New projects into London leapt by 18%.

While Scotland's share of UK new investment projects has varied widely over the past, the 2019 result of a 5.9% market share is below its decade long average of 6.8%. While Scotland was the UK's second most popular region for FDI overall in 2019, the 46 new projects recorded meant it was ranked only fourth for new projects, behind London (453 new projects), South-Eastern England (54 new projects) and the West Midlands (49 new projects). In 2018 Scotland had ranked second in the UK for new projects.

New projects in Scotland and Scottish share of new UK projects, 2010-19



Source: EY European Investment Monitor (EIM), 2020.



FDI jobs: rebounding to second place behind London

Collecting employment data for FDI projects is a challenging process, with not all projects disclosing job numbers. This means it is not possible to identify long-term employment trends with absolute certainty. However, the available data does confirm that average size of the jobs impact for projects varies widely year on year. In the UK as a whole, the average number of jobs created by projects that disclosed employment data in 2019 was 51.4 jobs, the highest in the past decade.

Scottish projects were also larger in terms of jobs than in the recent past – rising to their highest since 2011 – and were also above the average for the UK. With 6,438 jobs announced by FDI projects during 2019, Scotland ranked second behind London for employment created during the year, up from fifth in 2018. However, it's important to stress that in any given year, any region can see its ranking change markedly depending on the projects recorded. In the past decade, Scotland's ranking on FDI employment has ranged from first in 2010 and 2011 to eighth in 2016.

Average project size in terms of jobs created, and Scotland's UK ranking for FDI employment, 2010-19¹

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Size UK Projects	29.1	44.0	43.5	35.0	35.3	39.8	41.3	41.7	26.9	51.4
Size of Scottish Projects	59.0	116.2	64.0	50.8	44.7	45.3	29.0	54.9	23.3	83.6
Rank of Scotland in employment creation	1st	1st	2nd	2nd	3rd	3rd	8th	4th	5th	2nd

1. Note that not all projects disclose jobs. Average project size has been calculated only from those projects that do disclose employment levels. Source: EY European Investment Monitor (EIM), 2020.

Projects and disclosed project employment for each UK region, 2019²

	Projects	Disclosed jobs created
East Midlands	39	1,889
East of England	40	2,936
Greater London	538	11,516
North East	30	710
North West	73	3,389
Northern Ireland	28	1,354
Scotland	101	6,438
South East	83	2,161
South West	30	1,515
Wales	24	822
West Midlands	64	2,381
Yorkshire & Humber	59	1,504
Grand Total	1,109	36,615

2. Note that not all projects disclose jobs. Average project size has been calculated only from those projects that do disclose employment levels. Source: EY European Investment Monitor (EIM), 2020.

Origins of FDI projects in Scotland: the US retains its lead ...

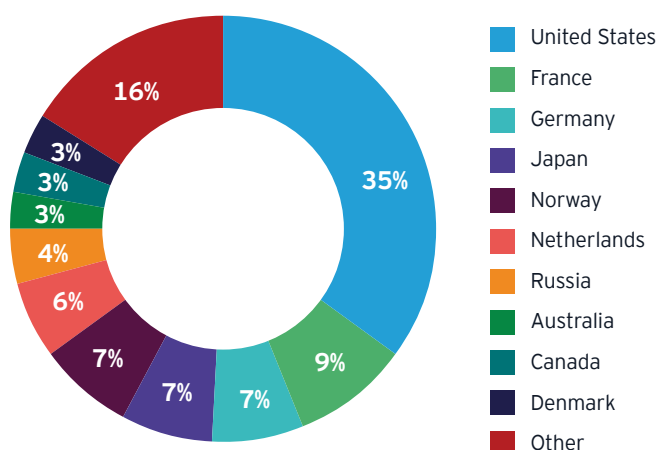
In 2019 the US remained the single biggest originator of FDI projects into Scotland, a position that was also reflected across the UK. Indeed, the US has consistently been the most significant investor in the UK since FDI records were first maintained in 1987. During 2019, the US generated 34% of all UK inward investments, slightly up on its 2018 share of 32%. Scotland was marginally more reliant on US investment than the UK as a whole, with 35% of Scotland's FDI projects originating from the US.

However, unlike the UK overall, Scotland secured its second largest share of investments from France, which contributed 9% of Scottish projects in 2019 against just 4.5% for the whole of the UK. The number of French investments into Scotland increased by five projects during the year, while French-originated investment at a UK level was down slightly.



German, Japanese and Norwegian projects each made up 7% of Scotland's total complement of FDI projects in 2019. The UK as a whole also secured 7% of its overall projects from Germany – positioning Germany as the UK's second-largest source of projects – but only 3.2% from Japan and 1.4% from Norway. In fact, Scotland won almost half of all Norwegian investment projects in the UK in 2019, securing seven out of Norway's total of 15. Meanwhile, in a break from previous years, Russia emerged as a top-ten source of projects for Scotland, contributing 4% of Scottish inward investments, with its four projects consisting of two in agri-food, one in chemicals & plastics, and one in digital. Russian projects also rose in the UK overall, although they only represented 1.4% of the UK total.

Top origins of FDI projects in Scotland, 2019



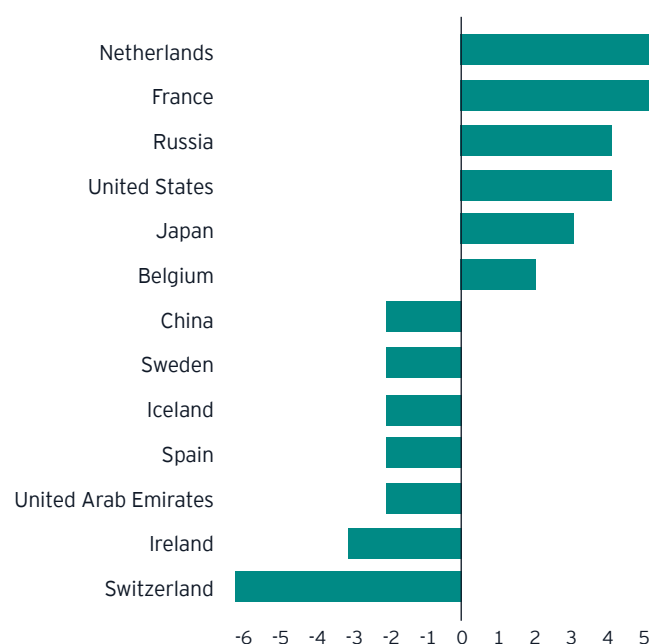
Source: EY European Investment Monitor (EIM), 2020.

... while projects from France bounce back

While there tends to be some variation the top origins of projects year on year, the US has always been the number one source of investment projects for the UK, with Germany generally ranked number two for the UK – but France more often ranked number two in Scotland. This means that 2018, when France ranked equal sixth for Scottish FDI projects, was a particularly poor year for French investment. However, 2019 marked a return to form, with France leaping back up the ranking to once again be the second-largest origin of projects for Scotland – a position it's held in six of the past 10 years.

The increases in Scottish projects from Russia and the US mirrored the changes at the overall UK level. But Scotland secured increases in Dutch, Belgian and Japanese projects against a backdrop of those countries' investments in the UK decreasing. The largest declines in projects into Scotland were recorded from Ireland (down by three projects) and Switzerland (down by six). These results were in line with the overall position for the UK, with both origins also recording a decline in the total UK projects.

Changes in number of Scottish projects recorded by country 2018-19 (largest absolute changes)



Source: EY European Investment Monitor (EIM), 2020.

Machinery & equipment and agri-food become Scotland's leading FDI sectors ...

The two leading sectors generating inward investments into Scotland in 2019 were machinery & equipment and agri-food – a big shift from 2018, when the top two were digital and business services. Together, machinery & equipment and agri-food accounted for 34.7% of all Scottish investment projects in 2019, marking the first time in the decade that a service sector has not occupied at least one of the top two positions. In the UK as a whole the leading sectors in 2019 were digital and business services.

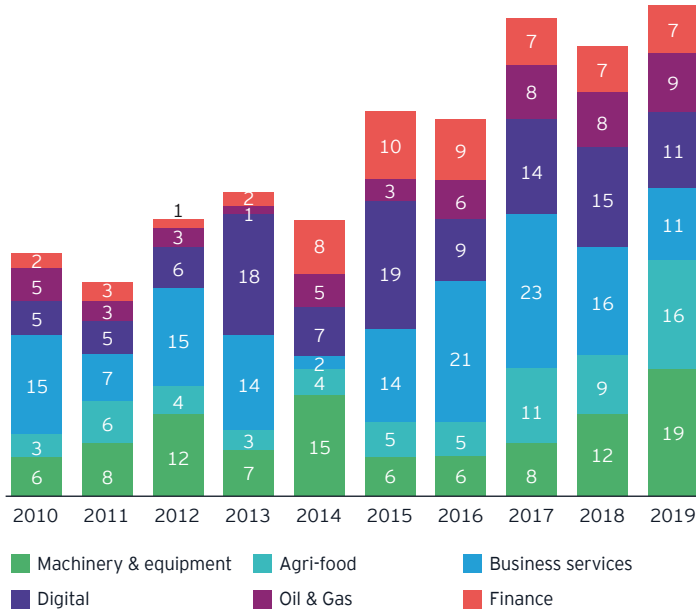
The change in the Scottish FDI sector rankings was brought about by a combination of growth in machinery & equipment (up 58% to 19 projects) and agri-food projects (up 78% to 16), and declines in digital (down 27% to 11) and business services projects (down 31% to 11 projects). In terms of projects generated, these changes pushed business services down to third place in 2019 from first the previous year, and digital down to fourth from second. While the rise in machinery & equipment projects was reflected across the UK, Scotland's increase in agri-food projects came against the background of a UK-wide decline in this sector.

... as oil & gas records an increase

Aside from its top two sectors of machinery & equipment and agri-food, another sector where Scotland had a reasonably strong year in 2019 was oil & gas. It ranked fifth for investments in Scotland with nine projects, a 13% rise year-on-year. The finance sector was unchanged at seven projects.

In general, the leading sectors generating investment in Scotland tend to be more variable than for the UK as a whole. Over the past decade, digital or business services have each consistently been ranked one or two for the UK – but in Scotland this has only been the case in four years over the past decade.

Scotland's six leading FDI sectors in 2019 and their historic performance, 2010-19

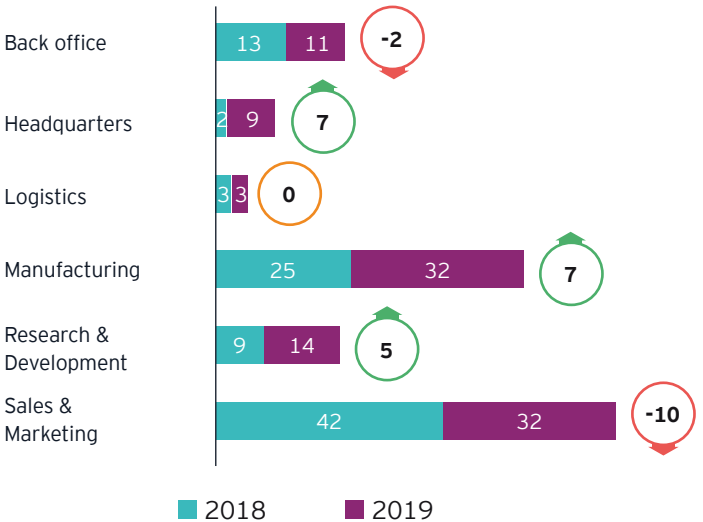


Source: EY European Investment Monitor (EIM), 2020.

FDI activities: HQs, manufacturing and R&D power ahead

As well as sectors and origins, the overall increase in Scottish projects between 2018 and 2019 can be categorised in terms of the activity that each investment aims to carry out. Of the six broad activities undertaken by FDI projects, three recorded an increase in projects in 2019: headquarters (HQs – up by seven projects or 350% to nine projects – equivalent to a 3.5 times increase in HQ projects); manufacturing (up by seven projects or 28% to 32 projects); and research & development (R&D – up by five projects or 56% to 14 projects). These figures are in line with the UK overall, apart from in manufacturing where the UK suffered a fall of 6%.

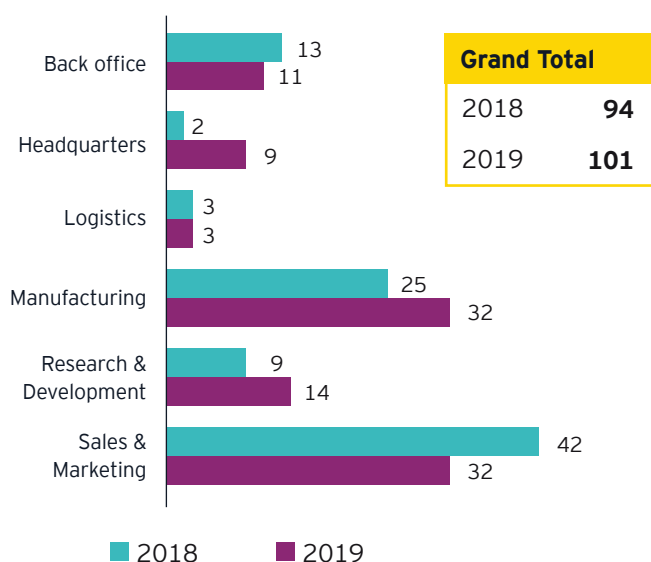
Change in Scottish FDI projects by activity, 2018-19



Source: EY European Investment Monitor (EIM), 2020.

These changes meant manufacturing joined sales & marketing at the top of Scotland's ranking of project activities in 2019 – both on 32 – with R&D third on 14 projects. The biggest absolute decline in projects was in sales & marketing, which was down by 10 projects (24%), while back office projects also declined by two projects (15%). The increase in Scottish FDI in 2020 differed somewhat from the UK as a whole in terms of activities, with manufacturing helping to deliver higher project numbers in Scotland. In the UK overall, the rise in projects was against the backdrop of manufacturing project numbers falling back.

Number of Scottish FDI projects by activity, 2018 and 2019



Source: EY European Investment Monitor (EIM), 2020.

FDI cities: Scotland's 'big three' hold firm in the UK's top ten

As in the previous year, Scotland had three representatives in the UK's top ten FDI cities for 2019 – Glasgow, Edinburgh and Aberdeen. All three Scottish cities recorded higher numbers of projects than in 2018, with projects into Aberdeen surging by 88%, Glasgow projects up 21% and Edinburgh rising by 10%. The leading Scottish city was Glasgow, with one more project than Edinburgh. Indeed, when London is excluded, Glasgow was the third most popular UK city as a destination for FDI, behind only Manchester and Birmingham. The mix of project sectors and origins varied widely between the 'big three'.

A tale of three cities: differing sectors and origins for FDI

Glasgow

Of Glasgow's 23 projects secured 2019, eight originated from the US. But it also recorded projects originating from another 10 countries – Japan with three, and two projects each from Canada, Germany and the Netherlands. In terms of sectors, digital, business services and finance together accounted for just over half of Glasgow's projects (12). But machinery & equipment was responsible for five projects, making it the joint leading sector for the city equal with finance.

Edinburgh

Edinburgh, like Glasgow, recorded projects from 11 different countries in securing its total of 22 projects. But in Edinburgh's case half were from the US, Norway was the origin for a further two, and then no other origin generated more than one project. The project sectors for Edinburgh were led by machinery & equipment, although in some cases these were investments in the offices associated with businesses in the sector rather than in actual manufacturing facilities. Of Edinburgh's 22 projects, only half were in the services sectors of digital, business services and finance.

Aberdeen

Aberdeen secured 15 projects during 2019, and while seven of these were in the energy sector, it also secured projects in business services (three), digital (two), and one each in machinery & equipment, electronics and transport equipment. The investments into Aberdeen came from seven different countries – with the biggest origin being the US with five, but with Norway (three), the Netherlands (two) and Japan also providing more than a single project.

Also, the fact that the three Scottish cities in the UK top ten are so geographically distant from each other also ensures that Scottish FDI is spread more evenly across the country than is the case for many of the English regions. Of the

Scottish investment locations not in the UK top 10, Livingston recorded four projects (double the number in 2018), Dundee recorded three (down by two projects) and Falkirk recorded three projects after only recording one in 2018.

The UK's top ten cities for FDI projects, 2019 (excluding London)

Rank	City	YoY rank change	2018	2019	%age Change	% of regional/DA* total
1	Manchester	-	37	33	-10.8	45.2
2	Birmingham	-	22	30	36.4	46.9
3	Glasgow	+3	19	23	21.1	22.8
=4	Belfast	-	20	22	10.0	78.6
=4	Edinburgh	-	20	22	10.0	21.8
6	Leeds	-3	21	20	-4.8	33.9
=7	Aberdeen	+3	8	15	87.5	14.9
=7	Bristol	-	10	15	50.0	50.0
9	Reading	-2	12	14	16.7	16.9
=10	Cambridge	-1	10	10	0.0	25.0
=10	Cardiff	New entry	8	10	25.0	41.7

*Devolved Administration.

Source: EY European Investment Monitor (EIM), 2020.

Projects secured by Scotland's top investment locations, 2018-19



Source: EY European Investment Monitor (EIM), 2020.

Ten projects in Scotland created 100+ jobs each

There were ten FDI projects recorded in Scotland in 2019 that announced they expected to create over 100 jobs. The largest was the expansion of the JP Morgan facility in Glasgow, which has a stated ambition to add a further 2,700 employees. While the ten biggest job-creating projects involved a wide a range of countries of origin, sectors and activities, six were from the US and seven were expansion projects – underlining the importance of attracting further growth in FDI from existing inwards investors.



Next: FDI in Scotland in 2020

The COVID-19 shock has changed the landscape ...

In any 'normal' year, the analysis of FDI performance we have set out would show where Scotland is 'Now' in terms of FDI performance, and provide the basis for identifying what is likely to happen 'Next'. But 2020 is not a normal year. The onset of the coronavirus pandemic has had a catastrophic impact on lives and economies worldwide, disrupting the established international flows of capital, people and goods.

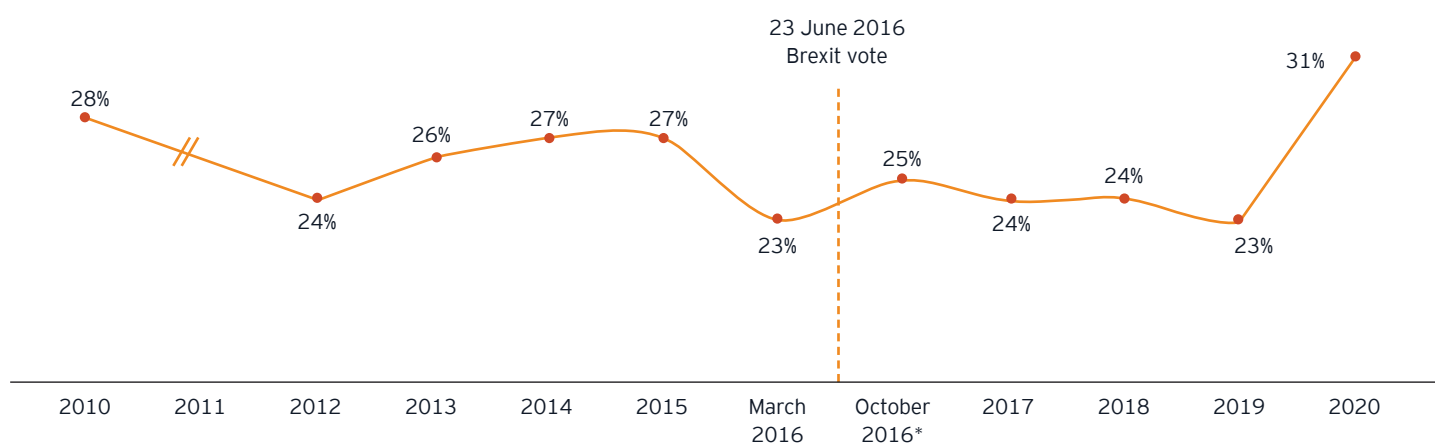
For Scotland, in common with the rest of the UK and other leading FDI locations worldwide, the 'Next' is now all about understanding the potential impacts and fallout from COVID-19. When we have done this, we can move on to 'Beyond' – working out how to thrive and continue to attract investment in the post-pandemic world. To inform our thinking and analysis, we have drawn on two surveys of around 800 international investors in total, one undertaken before the COVID-19 shock hit – comprising 60% of the sample – and the other conducted during the lockdown period in the world economy.

... but the UK entered it with a resilient pipeline of projects

While the survey findings look at the UK as whole rather than Scotland specifically, they bring some important messages for Scottish FDI. One of the most significant is that before the virus struck, the UK was on verge of a potentially strong

year for investments. Before the COVID-19 pandemic, 31% of investors say they were planning to invest in the UK during 2020 – a significant increase from 23% in the previous year's survey, and the highest level of intention to invest recorded in the past decade. It was also higher than the corresponding numbers for other European countries.

Proportion of companies planning to establish or expand operations in the UK over the next year, 2010-20*



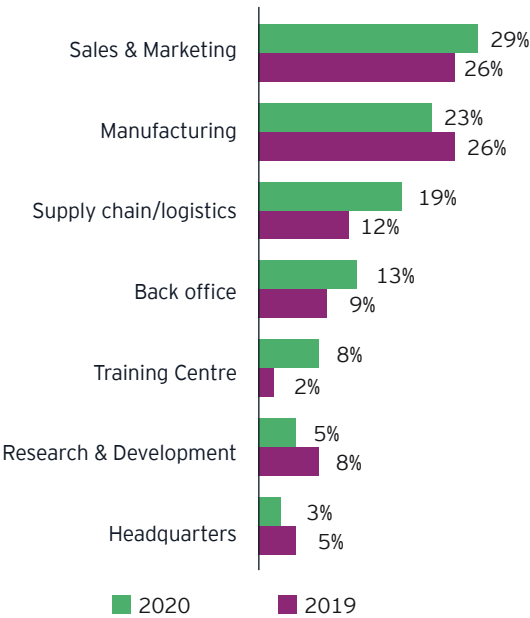
*Pre-COVID lockdown

Source: EY's UK Attractiveness Survey 2010-20.

Perhaps unsurprisingly, the intention to invest was much stronger among existing investors in the UK, 39% of whom said they had intended to invest in the UK before the pandemic struck, against just 2% of prospective investors saying the same. In terms of the types of project that companies were looking to invest in, sales & marketing offices and manufacturing led the way. These were also the top two activities for FDI projects into Scotland in 2019.

more cautious approach from investors, with 66% planning to decrease investment and 23% pausing it, against 17% and 15% respectively for the UK. FDI is an important window on economic performance because it tends to attract long-term investors, and the indications are that this perspective endures despite the unprecedented short-term shock. It is positive that the UK pipeline is proving to be so resilient in these turbulent times.

Activities of investment projects planned in the UK for 2020*, versus those planned for 2019

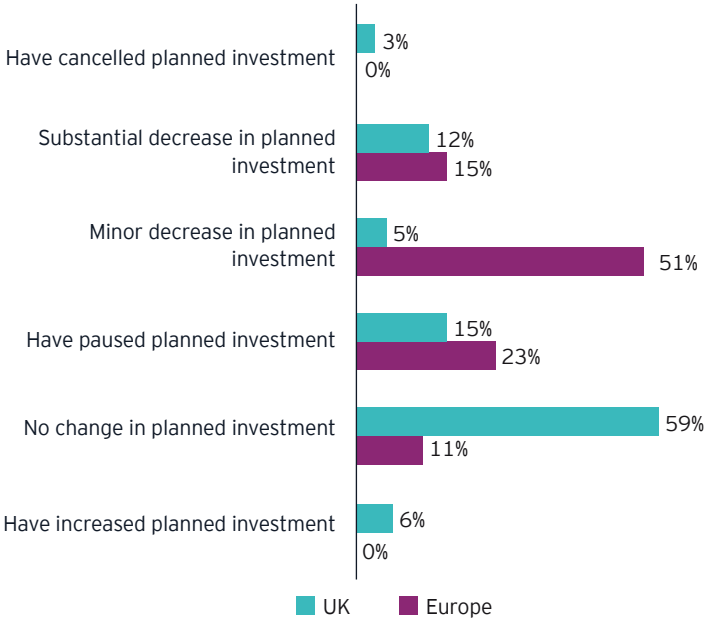


Source: EY’s UK Attractiveness Survey 2010-20.
* Pre-COVID lockdown.

UK investment plans are resilient despite the shock ...

How has COVID-19 affected these plans? Our survey results indicate that investors’ intentions towards the UK, compared to other FDI destinations in Europe, remain relatively positive when they look beyond the immediate COVID-19 shock. Respondents told us that 65% of the projects planned for the UK were still going ahead – including 6% who had actually increased their investment in light of COVID-19 – with only 3% saying they had completely cancelled their plans. By contrast, the corresponding figures for Europe revealed a

Have you changed your investment plans as a result of COVID-19?

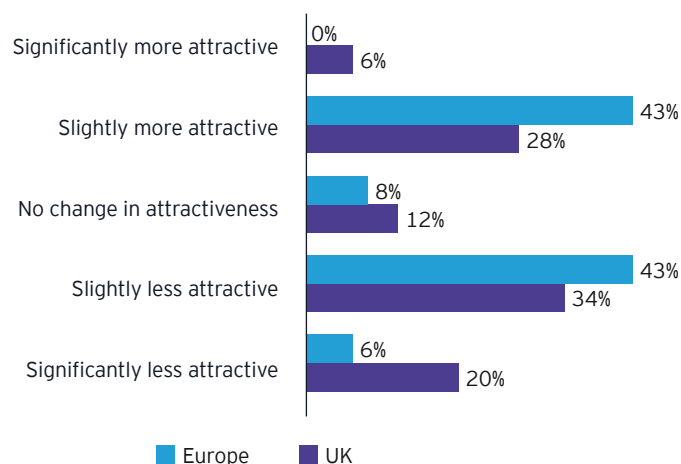


Source: EY’s UK and European Attractiveness Surveys, 2020.

... supported by a continued strong level of attractiveness for the UK ...

The view that the UK’s attractiveness to FDI is less exposed to the shock of COVID-19 than the rest of Europe is reinforced by other responses to our survey. Asked whether the UK and Europe will be more or less attractive for foreign direct investment in the three years after the COVID-19 pandemic has passed, the balance of investors was negative for both geographies but relatively less downbeat about the UK’s prospects. The potential recovery from COVID-19 presents many uncertainties, but investor perceptions appear to give grounds for a degree of optimism on the part of Scotland and the UK as a whole.

Will the UK/Europe be more or less attractive than today in three years once the Covid-19 pandemic has passed?

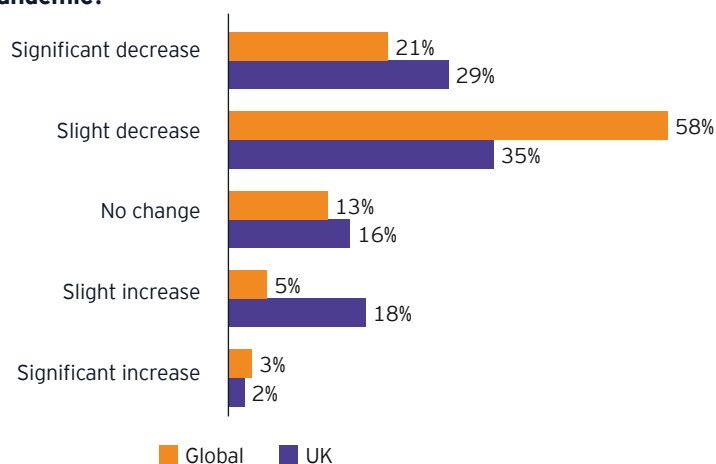


Source: EY's UK and European Attractiveness Surveys, 2020.

... in a tough global market ...

There is also no doubt that the outlook for FDI will be challenging as the world seeks to recover from the economic and social shocks. Asked whether they expected to see an increase or decrease in FDI globally following a period of recovery from the COVID-19 pandemic, a net -71% of investors responding to our survey said they were anticipating a decline in global FDI. Asked the same question about investment specifically into the UK, the balance expecting a decline was -44% – still very challenging but more positive than the overall market outlook.

Do you foresee an increase or decrease in FDI globally/in the UK following a period of recovery from the COVID-19 pandemic?

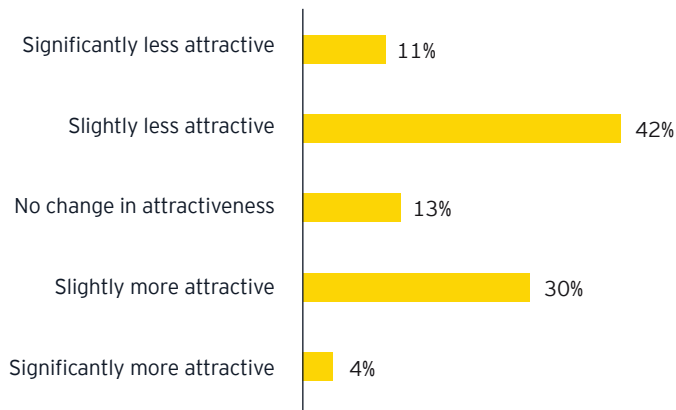


Source: EY's UK and European Attractiveness Surveys, 2020.

... with the impact of Brexit appearing to decline

This relatively positive view is supported by investors' responses when asked whether the UK may be more or less attractive after the end of the transition period with the EU, a step scheduled for the end of 2020. Just over half – 53% – think the UK will be less attractive, but four-fifths of these respondents think the impact on the UK's attractiveness will be 'slight'. And more than one-third of respondents – 34% – think Brexit will actually make the UK more attractive due to greater policy freedom, a proportion that is double the response in previous years.

The UK left the European Union on January 31st, 2020 and the transition period is due to end on 31 December, 2020. Do you think that the UK's status outside of the EU with its ability to pursue independent policies to respond to future shocks such as Covid-19, makes it more or less attractive as a location for FDI?



Source: EY's UK and European Attractiveness Surveys, 2020.

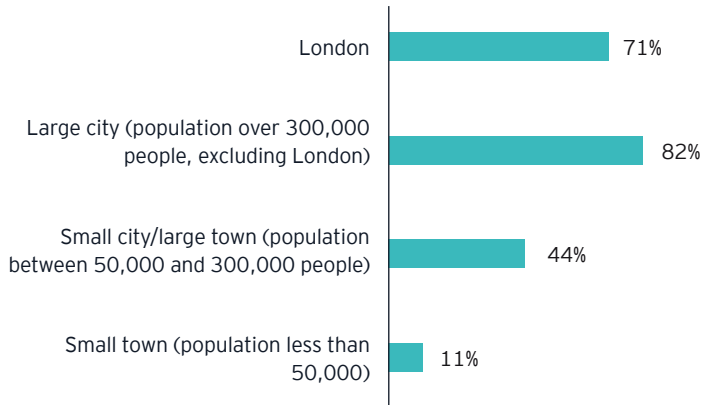
Asian investors surveyed appear much more positive than those from other regions about the opportunities that will be available in the UK post-COVID 19. They are also less concerned about the UK leaving the EU: this appears to be part of a realignment of their supply chains, with Asian respondents 40% more likely to be considering this than US or European investors. Unsurprisingly, European investors are more concerned about the consequences of Brexit, and therefore relatively less positive about the UK's prospects.

While the UK has formally left the EU, the transition period until the end of December 2020 means little has changed in practice. There is obviously a risk that investors have become distracted by the shock caused by COVID-19 and will return to focus more on the risks associated with future UK-EU relations in the coming months. Nevertheless, our analysis suggests the UK economy may have changed more than many people had realised as part of an adjustment to the UK's impending new status, and that investors have recognised this.

A post COVID-19 opportunity for Scotland's cities?

A further finding that could have positive implications for Scotland is that investors planning projects before the COVID-19 pandemic were favoring other large cities of more than 300,000 people over London. While London had a very strong year in 2019 – increasing its project count by 17.5% to secure 48.5% of all UK projects – investors were more likely to be planning projects in other conurbations. The COVID-19 crisis may well reinforce this tendency to look beyond the metropolis of London. Scotland, with three cities in the UK's top ten for FDI outside London – two of them, Edinburgh and Glasgow, with populations of over 300,000 – could stand to benefit as investors recalibrate their plans in the wake of the pandemic.

Where in the UK did you plan to invest?



Source: EY's UK and European Attractiveness Surveys, 2020.

Beyond: the outlook for Scottish FDI



In a challenging global marketplace for FDI, what shines through in our research is that Scotland is succeeding in maintaining its attractiveness to investors. Our data both on Scotland's FDI performance in the 'Now' and the effects of COVID-19 on investors' perceptions in the 'Next' suggests that Scotland has a solid base on which to build its future strategy for attracting FDI projects. As we look to the 'Beyond', Scotland can draw many positives from this year's report, including:

- ▶ An increase in project numbers and UK market share, consolidating Scotland's ranking as the UK's second most popular FDI location behind London – a position it has held since 2014.
- ▶ A rise in projects secured from origins including the US, France and Russia – with increases recorded in projects from the Netherlands, Belgium and Japan despite those countries' investments in the UK as a whole decreasing.
- ▶ Scotland's highest level of reported employment creation from FDI since 2011, at 6,438 jobs – a total bettered only by London.
- ▶ A resilient pipeline of planned projects and sustained positive perception as an FDI location.

These findings all support the view that Scotland is well-placed to keep capitalising on its proven strengths in a post COVID-19 world, and maintain its position as the principal UK alternative to London – while also continuing to punch above its weight in the UK, European and global battle for FDI in the 'Beyond'.

Scotland's ability to all do this can be reinforced by its ability to mirror investors' evolving priorities when choosing an FDI location. In our 2020 investor survey, 25% of respondents cited skills and 22% infrastructure as key considerations – findings that were consistent with previous years in our research. However, this year, 30% identified finance and capital availability, 23% mentioned Government support and 18% cited the level of national stimulus packages available.

Challenges and opportunities ahead

In light of such shifting priorities, the challenge is to design, implement and clearly articulate appropriate policies and incentives. What's more, alongside continuing to attract FDI, a further opportunity is also available: to provide resources and incentivise investors' conduct to support the creation of a more balanced and sustainable economy in the journey towards 'net-zero'. This is an area where Scotland is an acknowledged world leader, having been selected as the location for the – sadly now postponed – 26th UN Climate Change Conference that was scheduled for November 2020.

The Scottish Government has already made great strides in recent years towards realising these multifaceted opportunities, through actions including establishing Innovation and Investment Hubs in several European cities and reorganising Scottish Development International (SDI) into specialist divisions. Now it's time to build on these achievements by zeroing in on key sector strengths like technology, manufacturing and health; continuing to focus on delivering and improving vital skills and infrastructure; and determining the sources and levels of financial support that will be made available.

As the world moves beyond the crisis response phase of the COVID-19 pandemic, Scotland is well placed to ensure that continuing strong flows of FDI remain a key pillar of its economy. Let's ensure we all help to make that happen.



Methodology:

how EY researched the report

The 'real' attractiveness of Scotland for foreign investors

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

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

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

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

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

The 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.

We have adapted our regular investor survey this year, to provide more insight into the impact of COVID-19 on the perceptions and aspirations of investors into the UK and Europe as a whole.

- ▶ European field research was conducted by the CSA Institute in January and February 2020 via telephone interviews, based on a representative panel of 504 international decision-makers.
- ▶ A second perception survey for Europe was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.
- ▶ A final perception survey for the UK was conducted by Longitude from 10 April to 30 April to reflect decision-makers' perception changes due to the COVID-19 crisis. The survey was conducted by telephone and email and based on a representative panel of 200 international decision-makers.

About the attractiveness program

EY Attractiveness surveys are widely recognised by EY clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI), and examine the attractiveness of a particular region or country as an investment destination. The surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth.

A two-step methodology analyses both the reality and perception of FDI in the respective country or region. This year the perception study was based on two surveys of around 800 international investors in total, one undertaken before the COVID-19 shock hit and the other during the COVID-19 lockdown period .

The Attractiveness program has an 19-year legacy, and has produced in-depth studies for Europe, a large number of individual European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

ey.com/en_gl/attractiveness

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The *Scotland Attractiveness Survey* is part of the EY Economics for Business program, which provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate.

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