



GREENFIELD INVESTMENT MONITOR

In Focus: USA, the EU's main greenfield FDI partner continues to expand its share

■ First Quarter 2017 performs very strongly and reaffirms 2016 trend

Greenfield foreign direct investment (FDI) flows into the European Union in the first quarter of 2017 totalled €16.9 billion, creating 50,862 jobs.

This is a dramatic increase over last years' first quarter FDI flows in the EU of €1.4 billion, creating 14,344 jobs, and is largely driven by large scale US investments in the communications sector across Europe. **By comparison, total greenfield investment in the US amounted to €13.3 billion and 44,288 jobs over the same period. The EU now also surpasses the US as a destination for this type of FDI.** While promising, this does not necessarily reflect a trend: as was pointed out in the first Issue of the EPSC's "Greenfield Investment Monitor". Greenfield investment flows are very volatile, and a trend should only be referred to as a development supported over a longer period.¹ Nonetheless, the EU is off to a good start in 2017, seemingly experiencing a reinforcement of existing tendencies.

One such development is that while the UK continues to be the largest recipient of inward greenfield FDI, its role has been markedly reduced throughout 2016 and Q1 2017, suggesting that this may be a trend that is set to continue. In 2014 and 2015 the UK' share of total EU greenfield investments was 40% (€24 billion) and 45% (€29.4 billion) respectively, decreasing to 29% in 2016 (18 billion €) and to 24% (€4 billion) in Q1 2017 (see

Table 1). **The reduced inflows into the UK have been largely compensated for by increased inflows into the EU27, as total inflows into the EU28 remained stable at a little more than 60 billion € per year.**

The Netherlands has seen a strong boost to investment in the first quarter compared to last year, accounting for 14% of total and worth €2.3 billion. France and Germany each receive roughly €2 billion, accounting for about 12% of greenfield FDI each. Ireland has built on momentum from the past two years, recording €1.8 billion worth of investments or 10.5% of total.

The UK and France were able to attract high job intensity investments, with 19% and 13.5% of all EU jobs created going to these two countries (9,684 and 6,853 jobs respectively). Germany and Ireland both saw over 4,000 new jobs (roughly 8% of total each).

Table 1: Top 5 recipients of inward greenfield FDI, by Member State, Quarter 1 2017

Member State	Value € bn (% of total)	Jobs (% of total)
UK	4.1 (24.1)	9684 (19.0)
Netherlands	2.4 (14.0)	1248 (2.5)
Germany	2.0 (12.0)	4153 (8.2)
France	2.0 (11.8)	6853 (13.5)
Ireland	1.8 (10.6)	4245 (8.3)

Source: fDi Markets²

Disclaimer

The Greenfield Investment Monitor is part of an ongoing project by the European Political Strategy Centre (EPSC), the European Commission's in-house think tank, on Europe as an Investment Destination. It is an occasional publication that aims to provide updates on the state of play of greenfield investment in the European Union, with each edition focusing on a specific theme. The views expressed in the Greenfield Investment Monitor are those of the authors and do not necessarily correspond to those of the European Commission.

Investments into the real estate and automotive sector remained high in Q1 2017, at €1.7 and €1.3 billion, but were surpassed by investments into the ICT (Communication, Software & IT services) sector, a reversal from last year (see Table 2). The first quarter of 2017 saw large US investments in the ICT sector, primarily in the Netherlands, Ireland and Germany. Investments in the communication and Software & IT sectors topped the charts in the first quarter with €3.7 and €2 billion respectively, in combination accounting for 34% of total investments.

Consumer products and software & IT service sectors generated the most job growth, with 9,445 and 8,469 jobs created, representing 18.6% and 16.7% of total job creation respectively. Real estate and the automotive sectors remain strong job growth sectors, with roughly 5,000 jobs created representing 9.5% of all jobs, each. Interestingly, the quarterly figures indicate a high job potential within the ICT sector with over 20% of all jobs created this quarter being in the sector.

Table 2: Top 5 recipients of inward greenfield FDI, by sector, Quarter 1 2017

Sector	Value € bn (% of total)	Jobs (% of total)
Communications	3.7 (22.0)	2624 (5.2)
Software & IT services	2.0 (12.0)	8469 (16.7)
Real Estate	1.7 (10.2)	4742 (9.3)
Automotive Components/OEM	1.3 (7.9)	5033 (9.9)
Consumer Products	1.2 (6.8)	9445 (18.6)

Source: fDi Markets

■ A Historic view of Greenfield FDI in the EU

When looking at the past decade and a half, a number of investment trends and relationships are underlined. The US stands out as the largest investor in Europe by a large margin, with more than all the other top 10 FDI source countries combined, and stands out every year as the top investor (See Table 3). Japan, Switzerland, Canada and Australia are the most consistent investment partners after the US. Russia, a large investor country from 2003 to 2005, has consistently reduced investment flows ever since, averaging around €1 bn per year. Interestingly, as Russian investment has declined, Chinese investment has exponentially increased with €0.5 bn invested in 2003 and by 2016 €9.7 bn worth of FDI. India has remained an important source of European FDI, but whose flows remain inconsistent.

Table 3: Top 10 investment source countries into the EU by Greenfield FDI Stocks, 2003-2017 Q1

Country	FDI Stock
United States	432,218
Japan	72,512
Switzerland	66,701
Canada	41,428
China	40,287
Russia	36,299
Australia	34,242
India	25,622
South Korea	23,541
Israel	14,329

■ More US investments drive the good results of Q1 2017

US investments have largely been driving the very good results of the first quarter of 2017, totalling €10.7 billion and accounting for 63% of all investments in the EU³ (see table 3). Switzerland's €1.1 billion investment represents 6.5% of total investments. Japan, Canada and China round off the top five source countries, each investing around €750 million. Chinese investments have dropped significantly compared to past years, absent large scale real estate or infrastructure investments, which had been dominant in 2016.

Table 4: Top 5 source countries of inward greenfield FDI

	Value € bn (% of total)	Jobs (% of total)
United States	10.7 (63)	26846 (52.8)
Switzerland	1.1 (6.5)	3865 (7.6)
Japan	0.76 (4.5)	3782 (7.4)
Canada	0.74 (4.4)	3821 (7.5)
China	0.72 (4.2)	3472 (6.8)

Source: fDi Markets

US greenfield investment flows into the EU have been steadily increasing since 2012, albeit still being significantly lower than pre-crisis levels in 2008. If Q1 2017 is followed by other strong quarters, 2017 is set to continue the recovery (see Chart1).

Chart 1: US greenfield investment in EU continues recovery

Source: FDImarkets

A breakdown of US greenfield investments into the EU in 2015 and 2016 show that the main investment partners of the US remain the UK, Netherlands, Germany, France and Ireland (see Table 5). The data for the first quarter of 2017 seem to suggest that this development will continue this year as well. The share of US investments in the UK relative to the rest of the EU has been steadily declining over the past two years, likely triggered by the uncertainty surrounding the UK's decision to leave the EU. At the same time, overall US investments in the EU have remained steady, indicating a shift towards continental Europe. Whether this is a trend that is set to continue remains to be seen.

Table 5: Top recipients of US greenfield FDI, by Member State, 2015-2016, Q1 2017

2015		2016		Q1 2017	
Country	Value €bn (% of total)		Value €bn (% of total)		Value €bn (% of total)
UK	11.5 (40.7)	UK	8.9 (30.1)	UK	2.6 (24)
Ireland	3.3 (11.8)	France	3.2 (10.8)	Netherlands	2.3 (21.4)
Netherlands	3.3 (11.7)	Ireland	2.7 (9.2)	Ireland	1.5 (13.9)
Germany	2.6 (9.3)	Germany	2.5 (8.6)	Germany	1.4 (12.9)
France	1.3 (4.7)	Poland	1.9 (6.6)	France	0.7 (7.2)

Source: FDImarkets

A sector analysis of US investments into the EU shows the dominant position of ICT, real estate and consumer products as preferred sectors of investment (see Table 6). The ICT sector alone accounts for over a quarter of US investments in Europe. Large investments in ICT infrastructure, R&D, data processing centres, retail consumer goods, logistics and distribution centres and warehousing and transport infrastructure are some of the main sub-sectors that attract American investors. Data for the first quarter of 2017 shows the ICT sector as again the top receiver of investment –as it was in 2015, largely driven by US firms such as Google and

Amazon: Amazon's €839 million investment in Ireland in ICT & Internet Infrastructure is a representative example of such large projects. Of the top ten projects in terms of value in Q1 2017, nine are in the ICT cluster and are split between the Netherlands, Germany and Ireland. Other non-ICT noteworthy projects include Detroit Electric's €324 million investment in the UK's automotive sector and Phillip Morris International's €283 million investment in Greece in the tobacco industry highlight the wide range of American investment in Europe.

Table 6: Top recipients of US greenfield FDI, by sector, 2015-2016, Q1 2017

2015		2016		Q1 2017	
Sector	Value €bn (% of total)		Value €bn (% of total)		Value €bn (% of total)
Communications	9.1 (32.4)	Real Estate	6.0 (20.5)	Communications	3.2 (30)
Software & IT services	3.5 (12.4)	Software & IT services	4.5 (15.3)	Software & IT services	1.4 (13.1)
Consumer Products	2.1 (7.3)	Communications	3.9 (13.1)	Real Estate	1.2 (11.7)
Real Estate	1.3 (4.8)	Consumer Products	2.4 (8.2)	Consumer Products	0.9 (8.8)
Textiles	1.2 (4.2)	Business Services	1.6 (5.6)	Semiconductors	0.7 (7)

Source: FDImarkets

EU Greenfield investments in the US in Q1 2017 amounted to €7 billion, creating 27,110 jobs. As such the EU remains the US's main investment partner, accounting for about 53% of all investments in the US in Q1 2017 (€13.3 billion). This marks an increase in the EU's share compared to previous years. The UK

supplants Germany and France as main the investor in the US in the first quarter of 2017 compared to 2016, increasing its share of all EU investments from 17.1% to 28.2%. Sweden invested heavily in the US in the first quarter of 2017, followed by Italy which remains a large investor.

Table 7: Top EU greenfield investors in the US, 2016 and Q1 2017

2016		Q1 2017	
Country	Value € bn (% of total)		Value € bn (% of total)
Germany	7.1 (25.2)	UK	2.0 (28.2)
France	5.1 (17.8)	Germany	1.4 (20.5)
UK	4.8 (17.1)	France	1.3 (17.8)
Italy	3.6 (12.6)	Sweden	0.7 (10)
Spain	2.2 (7.7)	Italy	0.6 (8.1)

Source: FDImarkets

Together, the EU accounts for 46.3% of greenfield FDI into the US in 2016, standing at €23.5 bn. The top 5 investors in the US are China, Germany, France, UK and Japan. Furthermore, the EU is responsible for 56.2% of all jobs created via greenfield investment in the US, with almost 87,639 jobs.

The first quarter of 2017 was characterised by large investments in the automotive manufacturing sector, namely by the ZF Friedrichshafen Group and the Fiat Chrysler Group. EU investments in the US focus on the

Automotive Sector, accounting for nearly 30% of all EU investments. Textiles and alternative and renewable energy trailed automotive sector investments, standing at 9.2% each of total EU investment. Consumer products and software and IT services close out the top five investment sectors. Compared to 2016, there were limited shifts in the sectoral structure of European greenfield FDIs in Q1 2017, bar software and IT services joining the top five investment sectors.

Table 8: Top EU greenfield FDI investments in the US, by sector, 2016 - Q1 2017

2016		Q1 2017	
Sector	Value €bn (% of total)		Value €bn (% of total)
Textiles	5.3 (18.6)	Automotive Components/OEM	2.1 (29.9)
Alternative/Renewable energy	3.8 (13.5)	Textiles	0.6 (9.2)
Automotive Components/OEM	2.7 (9.5)	Alternative/Renewable energy	0.6 (9.2)
Rubber	1.6 (5.8)	Software & IT services	0.6 (8.2)
Consumer Products	1.5 (5.4)	Consumer Products	0.4 (5.4)

Source: FDImarkets

■ What's next for EU-US greenfield flows?

The US remains by far the most important greenfield investor in the EU and the other way around. US greenfield investments have been steadily increasing since the low in 2012 and Q1 2017 sets a very ambitious mark for the remaining year. Whether this trend will continue hinges on efforts to deepen

the internal market, with the resulting investment opportunities attracting greenfield FDI. Equally important is the agenda of the current US administration: while so far the current US administration has refrained from major policy initiatives that could damage the EU - US trade and investment relations, this could change in the future. In conclusion, the EU has positioned itself as a reliable business partner and stable investment destination in this time of uncertainty.

Notes

1. EPSC Greenfield Investment Monitor, In Focus: China's Expansion in the EU, Issue 1: 15 May 2017
2. The database used is fDi Markets which is a service by the Financial Times and estimates greenfield investments according to aggregated cross-border investment announcements by companies. It is the widely recognised standard for gauging the value and volume of greenfield investments globally. UNCTAD, the United Nations Conference on Trade and Development uses fDi Markets as a source for its annual flagship publication, the World Investment Report. Figures include estimates.
3. US investments in the EU in the first quarter of 2017 have been bolstered by several large profile investments in the ICT sector. Amazon, Google, Global Foundries and Cloudbric have each invested over €500 million in new ICT & Internet infrastructure, semiconductor production facilities and data processing centres. The Netherlands, Germany and Ireland are the main destinations.