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5º Aniversario

THE CONTRIBUTION OF MULTINATIONAL COMPANIES TO SPANISH ECONOMY AND SOCIETY

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Dña. Beatriz Blasco Marzal

President of Multinacionales por marca España

The presence of foreign capital companies in our country is highly notable, especially regarding their contribution to the Spanish economy in terms of investment, employment and innovation.

This new 2019 edition of the Report on the Contribution of Multinational Companies to Spanish Economy and Society addresses issues such as their contribution to the growth of the economy, the favorable impact of foreign capital companies in the labour market, as well as the stimulating role of MNEs in changing the production model in our country.

The report also analyzes the contribution of the multinational companies present in Spain to the internationalization of the business fabric and the impulse they give to exports, the territorial footprint that their activity leaves in the whole of the Spanish geography, as well as their stimulating contribution to Corporate Social Responsibility and the fulfilment of the Sustainable Development Goals.

This commitment and significant contribution to the economic and social development of Spain is recognized by the main institutional and business actors and must be disseminated to society. In the coming years, Multinacionales por marca España brand will continue working for promoting an increased awareness of the role played by multinationals in the economic growth and continuous improvement of Spain.

D. Mark Hall

CEO of HSBC España

When HSBC first arrived in Spain at the outset of the '80s, the bank was looking to be part of the new era unfolding in the country and to tap into the many opportunities that were springing up. HSBC opened its first offices in Madrid in 1981 and since then, its primary focus has been on corporate banking, making it today Spain's leading international bank supporting local corporate customers and international subsidiaries of foreign investors.

During that time, we have witnessed Spain become an important international player. Its state-of-the-art infrastructures, the leadership shown by its multinational companies in strategic sectors, its geographic position, its professionals, and its favourable environment for businesses, are all just some of the most notable advantages that Spain has to offer foreign investors.

With its global experience and local knowledge, the bank has become an important companion on his journey for companies in Spain, supporting them in their growth, financing and internationalisation.

For HSBC, it is important that Spain continues to have weight in the open international economy, as well as legal stability and outstanding growth figures. In a global world in which the competition to attract capital is increasingly fierce, for us it is key that the investment activity is maintained and that foreign investors continue looking to Spain as one of their preferred options.

EXECUTIVE SUMMARY

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Foreign investment, as a complement to trade, has been one of the key drivers of international economic integration, and it is not possible to understand the degree of development and current economic integration without it. In this trend, a decisive role is played, no doubt, by large-scale, multi-location investment companies with both vertical and transversal strategies inserted in global value chains; in short, foreign capital multinational companies (MNEs).

This new 2019 edition of the Report on the Contribution of Multinational Companies to Spanish Society addresses issues such as their contribution to the growth of the economy, the favorable impact of foreign capital companies in the labour market, as well as the stimulating role of MNEs in changing the production model in our country. The report also analyzes the contribution of the multinational companies present in Spain to the internationalization of the business fabric and the impulse they give to exports, the territorial footprint that their activity leaves in the whole of the Spanish geography, as well as their stimulating contribution to Corporate Social Responsibility and the fulfilment of the Sustainable Development Goals.

Spain currently remains among the main recipients of foreign investment promoted by multinational companies. With an annual average of close to 33 billion dollars received, it occupies the eleventh position worldwide as a recipient of net FDI flows since the beginning of the century, and is the fourth European country in accumulated flows. Last year, foreign investment in our country set a record in the historical series, reaching 48.9 billion euros, 4% of Spanish GDP.

The investment of multinational companies in Spain tends to concentrate mostly in the service sector, around 60.0% between 2009-2018. Investment in the industrial sector remains important, with 28.5% in the same period, while the construction sector accounted for 9,7%. Multinationals originating from the United States, Italy, Germany and France are the most prevalent in Spain, although in the past year thirteen countries exceeded the 1 billion euros investment threshold.

Since 2007, at the beginning of the economic crisis, foreign capital companies have increased their position with respect to Spanish GDP by 9 percentage points, furthering their commitment to Spain, and displaying a clearly anti-cyclical behavior. Thus, the value of the accumulated investment stock, a variable that indicates the long-term commitment of foreign investors in the Spanish economy, represents 37.3% of Spanish GDP and amounts to 9,355 euros per inhabitant.

According to the INE (National Statistics Institute), there are 12,953 subsidiaries of foreign industrial, commercial and non-financial services in Spain. In the last ten years, this number has grown by 84%, increasing from 0.3% of the total number of companies in Spain to 0.6%.

As indicated in the report, MNEs generates a multiplier impact in the Spanish labor market, as well as in all economic aggregates. Indeed, foreign capital multinationals employ 1.6 million people, 14.7% of those employed in Spain in the sectors analysed by the INE. This number increased by 33.4% between 2008 and 2017, while the Spanish labor market as a whole lost 5.3% of its jobs. Moreover, workers of the subsidiaries of multinationals with foreign capital earn wages 35.2% higher than the average wage in Spain.

In short, it can be said that just 0.6% of Spanish companies which are subsidiaries of foreign multinationals employ 14.7% of workers in Spain and, in addition, according to the INE, generate 30% of the turnover.

Using a quantitative model, the contribution of foreign direct investment (FDI) associated to the activity of MNEs has been estimated through the main Spanish macroeconomic variables. Well, between 2006 and 2018, FDI contributed to a GDP growth of 7.6%, 3.6% of wages and 10.0% of employment, in addition to having helped reduce unemployment by 6.0%.

Multinational companies, on the other hand, help to induce a change of the productive model in Spain. Indeed, on the one hand, it should be taken into account that 34.4% of the large companies that carry out R&D activities in Spain are multinationals with foreign capital, and they execute 38.4% of the total expenditure on this activity. On the other hand, it should be noted that MNEs both attract and foster the fundamental asset of such change, talent.

First, because multinational companies are attracted to territories with availability of specialized local talent, while foreign talent is attracted by the existence of concentrations in the form of clusters and ecosystems, generated by the companies themselves.

Secondly, because MNEs develop a competitive advantage that favors the internationalization of domestic companies, and, with it, the conversion of some companies to multinationals. In addition, the foreign talent that is incorporated into the scientific community of a country increases foreign investment in local companies with innovations from the country of origin of the incorporated talent.

Therefore, it is not surprising that the productivity of foreign subsidiaries in Spain is 11% higher than the average productivity of the Spanish economy.

According to OECD data for this year, MNEs represent approximately half of international trade, one third of the output and GDP and a quarter of employment in the global economy; for every two jobs in the country of origin, the subsidiaries create a job in the country in which they settle. Foreign capital companies are, therefore, key players in globalization, and they are also key to the internationalization of the Spanish economy. Thus, it is estimated that 44% of the total Spanish exports correspond to subsidiaries of MNEs that are exporters, about 6,800 of the total subsidiaries that operate in Spain.

The report also accounts for the penetration of foreign investment in the Spanish geography. Indeed, the territorial diversity of Spain constitutes, together with the size of the market and the quality of infrastructure and human resources, a powerful attractive factor for the investment of foreign capital companies. In this way, the investment decisions of recent years are distributed over the whole of the Spanish territory, generating employment and wealth in all Spanish regions.

Although the Community of Madrid has traditionally been the main receiving region for productive investments in Spain, it should be noted that there is a strong 'headquarters effect' from which Madrid benefits especially, both in the way investment is allocated to headquarters or the central offices and by the ability to attract investments of the headquarters of the great Spanish companies. In any case, the Madrid region concentrates a significant part of that investment stock (68.1% last year).

However, the economic attractiveness of the Community of Madrid and the main metropolitan areas is not detrimental to other Spanish regions. The figures of property, plant and equipment linked to foreign investment, which represents almost 29% of the total investment stock, indicates that Catalonia accumulates 25.6 billion euros, ahead of the Community of Madrid, with 19.4 billion and Andalusia, with 16.1 billion.

Apart from the considerations of the 'headquarters effect', 89% of the foreign investment stock is concentrated in four regions, Madrid, Catalonia, the Basque Country and the Principality of Asturias. On the other hand, 67% of the employment generated by foreign investment is concentrated in Madrid, Catalonia, Andalusia and the Valencian Community.

The survey carried out among the multinationals belonging to the Association on their footprint in the Spanish geography yields conclusive results on their intra-regional presence. Thus, and although all the companies surveyed began their activity either in Madrid (61%) or Catalonia (32%), or in both territories simultaneously (7%), they have spread throughout the Spanish geography with the establishment of offices, production, development, or distribution centers, building an overlapping network, on many occasions, with local businesses. In this way, distribution and consumer goods companies that have established a network of establishments in Spain in line with the size of each regional market, while service companies such as consulting and human resources base their decisions fundamentally on the business dynamism of each territory.

According to the multinationals themselves, the decisive factors when choosing a location in the Spanish territory are firstly, the size and dynamism of the market, as well as the availability of talent and human resources; secondly, the costs and provision of infrastructure and, finally, access to specific local resources and the capacity for innovation.

The report sets out finally, the stimulus that Corporate Social Responsibility (CSR) has meant for the Mutinacionales por Marca España Association. On the one hand, multinational companies have adopted environmental and sustainability policies not only as a responsibility, but also as an opportunity, maintaining a permanent preventive policy and adopting environmental protection measures. Among the proposals for combating climate change, multinational companies have expressed their favorable views regarding the process of decarbonization of the Spanish economy and have opted for the establishment of a stable, coherent and harmonized regulatory framework with neighbouring countries that favors the transition to a low carbon economy aligned with the Paris agreements and the 2030 Agenda.

In addition, Multinational companies are pioneers and maintain extensive programs to ensure gender equality and the reconciliation of family, personal and work life of the members of their organizations. *Multinacionales por marca España*, in its report Gender Equality and Conciliation in Business (2019) has pointed out the reasons to continue working for gender equality and work-life balance and has proposed a series of recommendations to achieve these goals

The most innovative trends in the field of CSR, which include large companies placing the focus on the values of employees, customers and also, increasingly, investors; investors taking an interest in environmental, social and governance factors; and the consequent increasing flow of socially responsible investors, as well as the increasing relevance of data engineering that magnifies the connection between the results of these activities and the financial results of companies, will undoubtedly mark the investment agenda of multinational companies in the coming years.

CONCLUSIONS

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01.

MULTINATIONAL COMPANIES: A BOON TO SPANISH GROWTH

- Foreign investment, as a complement to trade, has been one of the key drivers of international economic integration, and it is not possible to understand the degree of development and current economic integration without it.
- In this trend, a decisive role is played, no doubt, by large-scale, multi-location investment companies with both vertical and transversal strategies inserted in global value chains; in short, foreign capital multinational companies (MNEs).
- The investment of MNEs has played a crucial role in Spanish economic growth since the beginning of industrialization in the last decades of the 19th century. Since then, the companies of the most influential countries in the world have become great actors in the economic development and modernization of Spain, engaging with the Spanish economic and social fabric and creating lasting alliances and structures that transcended the economic sphere.
- Spain currently remains among the main recipients of foreign investment promoted by multinational companies. With an annual average of close to $33 billion received, it occupies the eleventh position worldwide as a recipient of net FDI flows since the beginning of the century, and is the fourth European country in accumulated flows.
- In 2018, Spain ranked as the third European economy, and ninth worldwide, in terms of net FDI flows received, climbing three positions in the world ranking, and becoming the fastest growing country among the 30 main receiving countries of FDI.
- FDI flows in 2018 reached 48.9 billion euros, 4% of Spanish GDP.
- 41% of gross investment operations in 2018 corresponded to investment in new facilities and expansion of productive capacity carried out by foreign capital companies, while 59% corresponded to acquisitions.
- It is worth noting the value of capital increases or reinvestments in the context of new contributions in the historical series of investment flows in Spain, Multinational companies already established in Spain, aware in real time of the opportunities in the country, are the ones that make a commitment through reinvestment.

- In 2018, thirteen countries exceeded 1 billion worth of investments in Spain, although the highest volumes were from companies of US origin, the United Kingdom, Italy, Germany and France. The investments of multilatinas companies and other companies of the LATAM region in Spain continue to have ample growth margin.
- The investment of multinational companies in Spain tends to concentrate mostly in the service sector, around 60.0% between 2009-2018. Investment in the industrial sector remains important, with 28.5% in the same period, while the construction sector accounted for 9.7%.
- It is noteworthy that the economic growth that Spain has been registering since 2014 has revived the interest of foreign investors in real estate assets in the country.
- According to the fDi Markets database, the total number of greenfield projects generated in these last five years in Spain has totalled 2,722, corresponding to 1,962 companies, with a job creation of 256,821 jobs. According to the same source, the value of cross-border M&A operations in Spain amounted to $70.7 billion in 2018, 8.7% of the world total.
- The value of the accumulated stock or investment position has increased by 25% since 2013. This shows the long-term commitment of foreign investors to the Spanish economy, and already represents 37.3% of Spanish GDP.
- Since 2007, at the beginning of the economic crisis, foreign capital companies have increased their position with respect to Spanish GDP by 9 percentage points, furthering their commitment to Spain, and displaying a clearly anti-cyclical behaviour.
- The investment position of foreign capital companies amounts to 9,355 euros per inhabitant, 37.8% higher than in 2007.
- The US leads the ranking of investor countries in Spain. Investments from the United Kingdom, France, Italy and Germany, the four major European countries, accounted for 45.9% of the total stock last year. The growth of the investment from Chinese multinationals is remarkable.
- The commitment of multinational companies is also reflected in the total number of companies with foreign capital registered in Spain, whose figure rose in 2018, according to the Investment registry RIE, to 14,634.
- The number of companies has not stopped growing since 2003, registering an increase of 37.9% since that date and 17.6% since 2014. Not even in the worst years of the crisis did foreign investors stop taking positions in assets and companies in the country
- The level of control over the investee companies in the country is very high, with 85.2% of them controlling more than 75% of the total capital of the company, and 76.6% maintaining 100% participation in it .

- According to the INE (the Spanish National Statistics Institute), there are 12,953 subsidiaries of foreign industrial, commercial and non-financial services in Spain. In the last ten years (2008 to 2017), this number has grown by 84%, increasing from 0.3% of the total number of companies in Spain to 0.6%.
- This 0.6% of Spanish companies with subsidiaries of foreign multinationals generates 30% of the turnover and employs 14.7% of workers in the sectors analysed by the INE in Spain.

02.

THE MULTIPLIER IMPACT ON ECONOMIC AGGREGATES AND THE LABOR MARKET

- The 14,364 registered foreign capital companies employ 1.39 million workers, 7.6% of the total employed in Spain. Five of the ten Spanish companies with the highest number of employees have direct foreign investment.
- Companies from France, Germany, USA. and the United Kingdom employ a total of 788,636 workers, 56.5% of all employment generated by foreign capital companies.
- The 12,953 multinational subsidiaries that the INE accounts for employ 1.6 million people, 14.7% of the labour force in the sectors analysed by the INE in Spain.
- Between 2008 and 2017, employment in foreign capital subsidiaries increased by 33.4%, while the labour market lost 5.3% of its jobs in the Spanish economy as a whole.
- Workers of the subsidiaries of foreign capital companies receive 35.2% more salary than the average in the Spanish economy.
- The profitability of foreign investment is one of the fundamental elements that justify the existence of multinational companies and define their future in the form of new investments, and, therefore, their impact on the economy. In Spain, FDI has shown, between 2004 and 2016, a high level of correlation between profitability and the economic cycle, with greater growth in income obtained after the crisis..

- The subsidiaries of multinational foreign capital companies have activated productivity through technological externalities on local companies and increased competition in the markets.
- The calculation of the real global impact of foreign capital companies in the economy is not without complexity, since it depends on factors such as the degree of repatriation of the income obtained, which tends to reduce said impact, or the carry-over effect on local capital and investment, which tends to magnify said impact.
- Certainly, FDI data does not take into account the significant local capital raising that a productive investment entails, which sometimes reaches up to 60% of the total value of an investment project. In this sense, it can be said that FDI data underestimate the contribution of foreign investors to the formation of domestic capital, and, therefore, to the contribution to local wealth and economic growth.
- Thus, it can be said that, between 2006 and 2018, FDI flows of these companies in Spain contributed to a growth of 7.6% of GDP, 3.6% of wages and 10.0% of employment, in addition to helping reduce unemployment by 6.0%.
- FDI flows have contributed in various stages to avoid the strangulation that Spain would have suffered due to its lack of capital resources, helping to boost productive investment in the economy and maintain investment dynamism in contexts of tightening conditions of access to financing.
- The international community is examining how to reduce uncertainty regarding the taxation that affects the activity of multinationals, an uncertainty that runs the risk of being especially harmful for global investment.
- According to the Paying Taxes report (2019) prepared by PwC for the World Bank, which analyzes the tax systems of 190 countries around the world, the tax contribution of companies operating in Spain, both of local and foreign capital, is higher than the OECD average, the G20' or the European Union' itself.
- In 2017, subsidiaries of foreign companies contributed approximately 20.8 billion euros to the Social Security in the form of Social Contributions, 19.1% of the total contribution in Spain for the year. The staff of foreign subsidiaries established in Spain paid nearly 10,000 million euros worth of personal income tax, a contribution of 13% of the total income tax accrued in Spain in that year.

03.

THE ACTIVITY OF MULTINATIONAL COMPANIES, INDUCERS OF THE CHANGE OF PRODUCTIVE MODEL IN SPAIN

- Multinational companies are the major actors in Research and Development (R&D) activities worldwide. In recent years the role of MNEs subsidiaries has become paramount, since decisions not only respond to the mandates and hierarchy of the parent company, but they also have an increasingly important level of relative autonomy.
- The creation of domestic linkages between multinational and national companies and how strong these are will depend on the capacities of the local economy in which they are based, and on the absorption capacity of national companies.
- 34.4% of the large companies that carry out R&D activities in Spain are multinationals with foreign capital, and they account for 38.4% of the R&D expenditure.
- Foreign investment of a productive nature, mostly made by EMN, generates spillover effects in territories hosting the investment.
- On the one hand because multinational companies are attracted to territories with availability of specialized local talent, while foreign talent is attracted by the existence of concentrations in the form of clusters and ecosystems, generated by the companies themselves.
- On the other, because a competitive advantage that favors the internationalization of domestic companies and the conversion of some companies to multinationals is developed.
- In addition, the foreign talent that is incorporated into the scientific community of a country increases foreign investment in local companies with innovations from the country of origin of the incorporated talent.
- Another effect linked to the establishment of multinational companies in a country, especially those involved in innovative or R&D activities, is related to their impact on the local entrepreneurship ecosystem.
- In Spain, where the networks and processes of technological transfer and innovation need to continue improving according to the main global indicators,

and the expenditure on R&D in relation to GDP is still below the average of neighbouring countries, MNEs are often agents that incorporate local entrepreneurial talent into their value chain.

- According to studies such as the Global Entrepreneurship Monitor, foreigners residing in Spain tend to have a greater entrepreneurial vocation than nationals, which helps to increase the country's total entrepreneurial activity .
- In short, there is an additional positive effect, both by imitation and by carry-over, linked to the displaced personnel of the multinationals and their surroundings.
- The quality of business management of the average sized MNEs affects other variables in terms of competitiveness, such as wages, employment and productivity.
- In terms of productivity, companies with more than 50 and 250 employees in Spain have similar levels to those of companies in our environment. This makes Spain more attractive for the establishment of larger companies, as is the case of MNEs, and in relation to the performance of multinational companies in Spain, which, due to their larger size, have higher productivity ratios.
- The productivity of foreign subsidiaries in Spain is 11% higher than the average productivity of the Spanish economy.

04.

FOREIGN CAPITAL COMPANIES, KEY PLAYERS IN THE INTERNATIONALIZATION OF THE SPANISH ECONOMY

- According to OECD data for this year, MNEs represent approximately half of international trade, one third of the output and GDP and a quarter of employment in the global economy; for every two jobs in the country of origin, the subsidiaries create a job in the country in which they settle.
- The first wave of foreign investment of MNEs in Spain sought market access. This gave way to a gradual deployment adapted to the historical and socioeconomic

dynamics of Spain. Over the last two decades, the investment of foreign companies has led to vertical integration, associated with greater intra-group trade, mainly of intermediate inputs, thus configuring a mixed model of complex integration, with implications for the foreign trade of goods and services.

- Before the crisis, foreign capital companies were responsible for 25% of total Spanish exports, a share higher than their contribution in terms of added value and employment. During the crisis period, the subsidiaries of foreign companies in Spain contributed to a lesser extent to exports, but they did help to slow the advance of imports, so that their behaviour has had a very positive effect on the Balance of Payments.
- Currently, it is estimated that 44% of total Spanish exports corresponds to the subsidiaries of MNEs operating in Spain.
- In 2018, it is estimated that foreign capital companies in Spain had sales abroad of around 126.8 billion euros.
- According to Spanish Commercial Information, a source of the State Secretariat for Foreign Trade, there are 6,800 Spanish export companies controlled by foreign capital, representing 13% of the total regular export companies.
- The subsidiaries of multinational companies also generate significant indirect effects, which will depend on how strongly integrated they are in the national economies in which they are based. According to OECD data, on a global average, each dollar of additional sales of foreign subsidiaries generates another 0.62 for the national economies in which they are located.
- In terms of the insertion into the global value chains of MNEs, 21.6% of the added value of Spanish gross exports corresponds to inputs from foreign factors, which provides a measure of the carry-over effect of the Spanish exports on imports.
- On the other hand, Spanish domestic added value incorporated in exports from other countries amounted to 17.6% of gross exports, a figure that, in turn, offers a measure of the forward carry-over effect exports from the rest of the world have on the national production of inputs.
- The subsidiaries of foreign multinationals are increasingly hiring and cooperating with national suppliers, including SMEs,. In addition, the results analyzed demonstrate the importance of foreign subsidiaries in national value chains, not only as customers of locally produced, marketable and non-marketable inputs, but also as suppliers of final and intermediate products sold and used within the national economy.
- Thus, foreign subsidiaries are important gateways to international markets and connect national value chains with global value chains.

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05.
THE PENETRATION OF FOREIGN INVESTMENT IN THE SPANISH GEOGRAPHY

- The territorial diversity of Spain constitutes, together with the size of its market and the quality of its infrastructure and human resources, a powerful attractive factor for the investment of foreign capital companies. The investment decisions of the last years are distributed over the whole of the Spanish territory, generating employment and wealth in all the Spanish regions.
- The Community of Madrid has traditionally been the main receiving region for productive investments in Spain. There is a strong 'headquarters effect' from which Madrid benefits especially, both by the way in which the investment is allocated to the headquarters or central offices and by the power to attract investments exercised by the headquarters of the large Spanish companies.
- Thus, the Madrid region concentrates a significant part of the investment stock (68.1% last year).
- Madrid concentrates 405,735 direct jobs linked to foreign investments, 29.1% of the total employment of foreign companies in Spain. The 'headquarters effect' is evident when interpreting this data in relation to the weight of Madrid in the amount of the stock and the associated employment.
- The processes of agglomeration of economic activities and investment projects is not unique to Spain. The level of wealth per inhabitant is usually an important determinant of location choice for foreign investors, as well as market size so that there is a significant correlation between investments in each region with their GDP. This correlation is reduced in the case of the creation of employment linked to foreign investment and regional GDP.
- The economic attractiveness of the Community of Madrid and the main metropolitan areas is not detrimental to other Spanish regions. The figures of property, plant and equipment linked to foreign investment, which represents almost 29% of the total investment stock, indicates that Catalonia accumulates 25.6 billion euros, ahead of the Community of Madrid, with 19.4 billion, or Andalusia, with 16.1 billion.

- Apart from the considerations of the 'headquarters effect', 89% of the foreign investment stock is concentrated in four regions, Madrid, Catalonia, the Basque Country and the Principality of Asturias. On the other hand, 67% of the employment generated by foreign investment is concentrated in Madrid, Catalonia, Andalusia and the Valencian Community.
- According to the National Statistics Institute INE, the number of subsidiaries under control of foreign multinational companies reached 12,953 in Spain in 2017, 84.2% more than in 2008. All Spanish regions, without exception, have seen the presence of subsidiaries increase of foreign capital in its territory, a fact that accounts for their penetration in the form of a territorial network throughout the Spanish geography.
- The number of employees, value of production and turnover, as well as cash added value of MNEs have increased in the last decade (2008-2017) in all Spanish Autonomous Communities. Only the gross investment in material assets, which in Spain as a whole increased 3.6% throughout the Spanish territory, has had negative growth figures in the Cantabrian coast (Galicia, Asturias, Cantabria, Basque Country) and Castilla la Mancha in contrast to the positive growth in Andalusia, the Canary Islands, Murcia and Navarre.
- The results obtained from the survey of associated companies (32% responses) confirm the thesis of the positive contribution of companies to regional economic growth, which is manifested in the territorial penetration of their different facilities and forms of establishment throughout Spain.
- Since the end of the 19th century, with the first wave of the associated companies settling in Catalonia in 1899, foreign capital companies have bet and invested in Spain, and more examples can be found in almost all the decades of the last century. After the incorporation of Spain into the EU, the proliferation of associated foreign capital companies, mainly in the services sector, was greater, a dynamic that continues in the current decade.
- All the companies surveyed began their activity either in Madrid (61%) or Catalonia (32%), or in both territories simultaneously (7%), from where they have spread throughout the Spanish geography with the establishment of offices, and production, development, or distribution centers. Consumer goods and distribution companies have established a network of establishments in Spain in line with the size of each regional market. Service companies such as consulting and human resources act according to the business dynamism of each territory
- The companies that have responded to the survey operate 28 different development and R&D centers, distributed among 11 different Autonomous Communities. The 10 production plants of companies with industrial activity are distributed among 7 different regions, those with greater relevance in this sector in the productive fabric. The headquarters of the companies surveyed are

mostly concentrated in Madrid (64%), in line with foreign investment data and the headquarters effect.

- The statistical mode of global turnover of the multinational companies surveyed is slightly above 20 billion euros.
- The effect derived from the externalities of MNEs activity on the Spanish economy as a whole and at the regional level is very significant, and most of them integrate in the local business fabric when they need it.
- According to the responses obtained, among the decisive factors for choosing a location in the Spanish territory and regions, the size and dynamism of the market stand out in the first place, as well as the availability of talent and human resources. In second place we find, the costs and provision of infrastructure and, finally, access to specific local resources and the capacity for innovation.

06.

THE STIMULUS TO CORPORATE SOCIAL RESPONSIBILITY OF MULTINATIONAL COMPANIES IN SPAIN

- Multinational companies have a long history in the development and integration of the social responsibility vector (CSR) in their strategies, a commitment that generates a more innovative corporate culture, makes them more attractive internationally, and ensures they have more resources to anticipate and adapt to the challenges of a global and changing market.
- CSR in multinational companies tries to include responsible management models that take into account both the competitiveness and growth of businesses and the economy as a whole, as well as the development of people and the objectives of sustainable development in the global sphere.
- According to a recent report by A.T. Kearney (2019), 97% of investors say that their companies return to the communities in which they operate part of the benefits obtained in various ways, including the implementation of worker training programs, support for local initiatives or charities, hiring economically disadvantaged groups and other similar actions.

- The executives of the large multinational investment companies seem to be more aware than ever that the success of a business today requires improving its social footprint to help configure the policy environment in the territories where they work. FDI offers companies a means to achieve these objectives and, therefore, is likely to remain an important component of business strategy in the coming years.
- One of the most interesting trends in the field of CSR is the focus placed by large companies on the values of employees, customers and also, increasingly, investors. Their interest in environmental, social and governance factors (ESG in its Anglo-Saxon terminology) is generating a growing flow of socially responsible investors.
- In addition, the growing relevance of data engineering is expanding the connection between results in ESG activities and the financial results of companies.
- Large multinational companies adopt an increasingly integrated approach to the dissemination of their activities for investors, with a closer alignment between CSR teams, investor relations and corporate governance.
- Spain fulfilment of the SDGs leaves a mixed panorama, but recognizes the key role of the business sector in the implementation of these objectives, the need to boost partnerships and increase the mobilization of public and private resources towards the financing of the 2030 Agenda, as well as the fundamental function of business leaders as a lever to promote the transformation of the whole business community.
- Multinational companies have integrated the environment and sustainability not only as a responsibility, but also as an opportunity, maintaining a permanent preventive policy and adopting environmental protection measures.
- In the field of proposals for combating climate change, multinational companies have expressed their favorable opinion regarding the process of decarbonization of the Spanish economy and are committed to establishing a stable, coherent and harmonized regulatory framework with the countries of our environment, which favors the transition to a low-carbon economy aligned with the Paris agreements and the 2030 Agenda.
- Multinational companies are pioneers and maintain extensive programs to ensure gender equality and the reconciliation of family, personal and work life of the members of their organizations. The association *Multinacionales por marca España*, in its report Gender Equality and Conciliation in Business (2019) has pointed out the reasons to continue working for gender equality and work-life balance and has proposed a series of recommendations to achieve these goals

FOREWORD:
CURRENT INVESTMENT SCENARIO FOR MUTINATIONAL COMPANIES

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FOREWORD

During the last decades, the number and volume of investments made by companies in foreign countries has become one of the most prominent characteristics of the globalization of economic activity, with growth rates higher than international trade flows and GDP. Foreign investment, as a complement to trade, has been one of the key drivers in international economic integration, and it is not possible to understand the degree of development and current economic integration without it.

In this trend, a decisive role is played, no doubt, by large-scale, multi-location investment companies with both vertical and transversal strategies inserted in global value chains; in short, foreign capital multinational companies (MNEs).

Benefiting from the know-how of their parent companies, the exchanges between subsidiaries, economies of scale at international level and price differences in production factors between countries, MNEs have proved to be better, more productive performers than companies lacking an international presence.

Multinational companies make investments in countries other than their countries of origin for various economic reasons. Their internationalization strategies, depending on sector conditions, the type of activity and characteristics of each company have also evolved significantly over time, but some of the most widespread theories remain valid[1]. Thus, the determinants of investment continue to gravitate around factors such as access to new markets, the need to acquire new assets and capabilities, including natural resources, the search for greater efficiencies and cost reductions or for strategic reasons, such as the acquisition of existing companies in the target markets. It is also common for these theories to coexist, and that MNEs usually follow mixed strategies[2].

However, despite the changing environment some paradigms have remained unchanged. International investments continue to have a marked pro-cyclical nature, and trade and investment exchanges still have a marked regional character. The figures show that these tend to concentrate on intra-regional flows, especially in Europe and Asia, proving that proximity and affinity (geographical, cultural, idiomatic, etc.) still play a very important role.

In this sense, some analysts[3] point out that the world is entering what could be considered an era of multi-localism, characterized by a preference for local communities, industries, products, cultures and customs. This new era contrasts with the 'flat' world mentality of recent decades. According to the latest survey conducted by A.T. Kearney, more than 75 percent of investors believe that Foreign Direct Investment (FDI) is more important now than in recent years, and almost four fifths point out that their companies will increase their level of FDI over the next three years as a result. However, more than half of the companies did not focus on a single mode of investment, reflecting the need to accommodate FDI strategies to the unique conditions of each local market. Companies thus seem to position themselves in local markets by adapting to specific political risks, different policy frameworks, divergent economic conditions and other unique local characteristics.

In this context, the current situation presents numerous challenges for Southern Europe, countries and their sub-national territories, which have to decide what their commitment and specific value proposal is, define clear strategies that allow them to differentiate themselves in the new scenario, and attract those investments that contribute more to the local economy.

Political and economic risks and uncertainty add to these challenges, as well as the observed decline in the rates of return on FDI, which could be a key factor in its slowdown, as well as the increasing attention and supervision of investment activities by both national and supranational authorities.

Although multilateral organizations predictions for 2019 are positive in terms of investment flows, the underlying trends show structural weaknesses due to political factors, worsening trade conditions and the return of protectionist tendencies. Indeed, the new investment policies combine facilitation initiatives in less developed countries with others of a defensive and protectionist nature regarding investment in strategic sectors of the more advanced economies. At the same time, changes are taking place in international forms of production, increasingly driven by intangible assets, licenses and trade in services, which grow faster than FDI and generate increasingly lighter forms of investment in tangible assets.

In Europe, the greatest source of uncertainty is Brexit, and although at the moment it seems to be having a limited effect on FDI, at least until the terms and deadlines of the withdrawal are clear, the current perspectives and the uncertainty generated have a negative impact on the investment decisions of multinational companies.

NOTES

1.- Dunning (1988)

2.- Myro et al (2014)

3.- A.T. Kearney (2019)

01 THE CONTRIBUTION OF MULTINATIONAL COMPANIES TO THE GROWTH OF THE SPANISH ECONOMY

The investment of MNEs has played a crucial role in Spanish economic growth since the beginning of industrialization in the last decades of the 19th century. Since then, the companies of the most influential countries in the world have become key actors in the economic development and modernization of Spain, engaging with the Spanish economic and social fabric and creating lasting alliances and structures that transcended the economic sphere.

During the 60s and following the Stabilization Plan, and especially since the country's entry into the European Economic Community, Spain continued to attract more foreign investment, a trend which was accompanied by a growing internationalization of its companies, Multinational companies helped to revert the isolationism and autarchy that Spain had lived, helping to recover the influence of the Spanish economy in the world.

The opening of the economy in the second half of the 80s and early 90s, coinciding with the European reconfiguration and with a first phase of globalization, paved the way for the entry of investments, which would later be accompanied by a greater appetite of Spanish companies for investing abroad. The liberalization of the economy and market deregulation, the modernization of the financial and banking system and foreign competition accelerated the change in the domestic business fabric.

Thus, In the last decade of the last century, Spain offered great opportunities to foreign companies: high growth rates, the opportunities offered by an expanding domestic market with access to European markets, relatively low costs and the possibility of reaching emerging markets such as Latin America.

However, as can be seen in Figure 1, the volumes of flows for this period were still very modest in relation to what would come next.

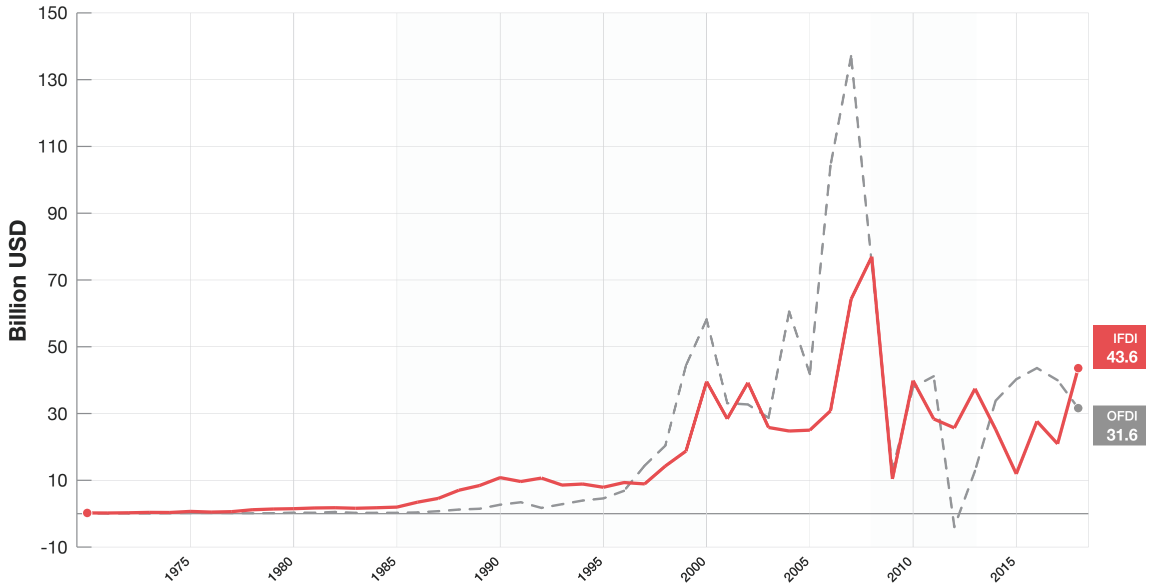
With the adoption of the Euro and the consequent elimination of exchange rate risks and credibility gains of the Spanish economy, MNEs increased their investments in Spain, coinciding with a period of rapid globalization worldwide[4]. ETVEs (holding companies[5]) also gained some relevance at this time. Spain, however, was hard hit by the incorporation of ten new countries into the European Union in 2004. These countries enjoyed cost and location advantages, were close to Central Europe and their domestic markets were small and had room to grow, but Spain maintained its ability to attract foreign investments in spite of this.

Despite the turmoils of the crisis, especially after 2007 and 2008, which were singularly strong in terms of inflows due to large, very specific operations (the purchase of Endesa by Enel, or the of acquisition of Altadis by Imperial Tobacco), Spain continued to attract foreign investors.

In the absence of large corporate operations (2018 has once again been an exception, due to the purchase of Abertis), investment flows have been gradually recovering from the lows set in 2009-2010. Thus, Spain is currently among the main recipients of foreign investment and also among the main investors abroad. With an annual average of close to 33 billion dollars received, according to UNCTAD[6], it has occupied the eleventh position worldwide as a recipient of net FDI flows since the beginning of the century, the tenth if tax havens are excluded and a sovereignty criterion is applied. Moreover, Spain is the fourth European country in accumulated flows, only behind the United Kingdom, Germany and the Netherlands.

FIGURE 1

EVOLUTION OF NET OUTWARD (OFDI) AND INWARD (IFDI) FDI FLOWS IN SPAIN, BILLIONS OF $ AT CURRENT PRICES



Source: UNCTAD, 2019

1.1 EVOLUTION OF INVESTMENT FLOWS IN SPAIN ACCORDING TO THEIR ORIGIN, TYPE AND DESTINATION

According, therefore, to the data provided by UNCTAD in 2019, Spain is once again among the main recipients of foreign investment worldwide. If in 2014 Spain occupied the twelfth position worldwide as a recipient of flows in the year in net terms, with $22.9 billion, the inflows of FDI flows to Spain in 2018 almost doubled, reaching $43.5 billion, the highest level since 2008, driven by mergers and acquisitions worth $71 billion. Thus, Spain stood in 2018 as the third European economy and ninth worldwide in terms of net FDI flows received, climbing three positions in the world ranking, and becoming the fastest growing country among the 30 leading FDI receiving countries . Indeed, the existence of a large operation, the $23 billion acquisition of Spanish highway operator Abertis by a consortium formed by Atlantia (Italy), ACS (Spain) and Hochtief (Germany), has contributed greatly to these excellent results, which, in any case, have spread to other sectors of activity in which a great appetite for investments can be appreciated.

Indeed, the economic growth that Spain has been registering since 2014 has revived the interest of foreign investors in the country's real estate assets. The private equity firm Blackstone, for example, acquired a 51 percent stake in the real estate assets of the failed Banco Popular Español for $6 billion. Another American private equity firm, Cerberus, acquired 80%of BBVA's real estate business for an estimated value of $4.7 billion in 2018.

The Foreign Investment Registry (RIE) of the State Secretariat for Trade provides information on the type of operations carried out by investors in Spain. Thus, it should be noted that 41% of the gross investment operations carried out in 2018 corresponded to investment in new facilities and the expansion of productive capacity by foreign capital companies. Among them, 19% corresponded to the creation of new businesses, while the remaining 22% went to other types of expansions carried out by foreign capital companies already installed in Spanish territory. 59% of foreign investment (27.6 billion euros of gross investment), the largest item, corresponded to acquisitions (mostly the aforementioned Abertis operation).

Without doubt, 2018 has been an anomaly in the recent trend, in which, from 2011 to 2017, productive investment by multinational companies has been concentrating on new contributions, with 91.8% and 75.3% respectively. 2016 marked another exception, when the value of acquisitions, for the most part the result of a major operation in the energy sector, was as high as that of the new contributions or greenfield operations.

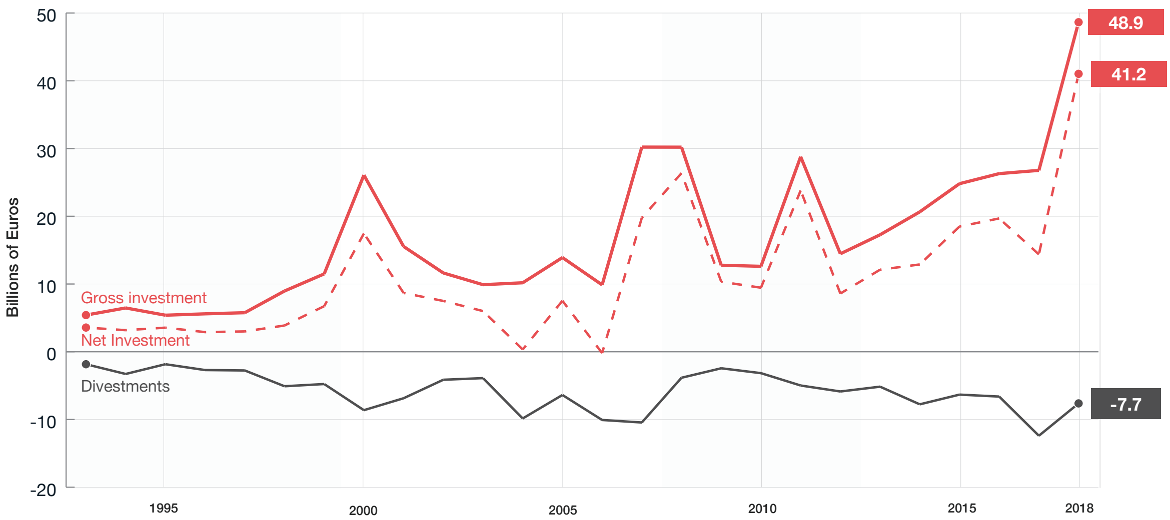
In any case, the value of capital increases or reinvestments in the context of new contributions in the historical series of investment flows in Spain is particularly noteworthy. These represent a high percentage of the total, much higher than the new company formations. The multinational companies already established in Spain, aware in real time of the opportunities in the country, show their commitment by reinvesting. Likewise, the acquisitions of local companies by foreign companies, either with the objective of taking positions in the national market, or for reasons of efficiency or strategic reasons, in addition to implying a change in the ownership of the assets, often lead to new investments.

The reconfigurations of large multinational corporations and their expansive or re-centralization decisions influence, in any case, the dynamics of cross-border mergers and acquisitions, which explains the global growth of flows in recent years.

FDI flows received by Spain averaged 3.6% of the annual global flows between 1990 and 1999 (8.8% of those received in the European Union), 3.9% between 2000 and 2008 (10.5% of the EU), and 1.9% in the period between 2009 and 2018 (7.6% of the

EU). In this last period, the increase in flows to emerging countries has eroded part of the share of the main developed countries, mainly those of Europe, especially in 2018 due to the impact of US fiscal policies on the flows in the continent.

FIGURE 2
EVOLUTION OF GROSS AND NET PRODUCTIVE FDI IN SPAIN, BILLIONS OF €, NON-ETVE



Source: Registro de Inversiones, 2019

Regarding the origin of foreign investments in Spain, expressed in terms of the ultimate origin (in which the chain of ownership of the multinational investment company is exhausted), this is made up of mostly OECD countries (84.9% since 2009), among which Spain's main European trading partners, United Kingdom, Italy, Germany and France account for the lion's share. Company investments from these countries represented, in 2017, 32% of the total and in 2018, 21%. However, it is important to consider, once again, the significant impact that the investment of a circular nature (round trip investment) concerning Abertis has also had on the analysis of the geographical origin of the investment, meaning that the main investor country last year was Spain itself, with 31% of total investment.

Beyond the specific nature of the investment made by the Hochtief, Atlantia and ACS consortium, which distorts the underlying trend, investments of US companies, which represent an average of 18, 4% in the last three years (16.6% in 2018) are particularly noteworthy.

Thus, in 2018, thirteen countries exceeded 1 billion euros worth of investment in Spain. In addition to those mentioned above, investments from the Netherlands or Luxembourg and those of companies based in Thailand, Canada, China, Australia and Qatar are noteworthy.

The investments of multilatina companies and other companies of the LATAM region in Spain continue to have plenty of margin for growth. With the exception of Mexican companies, with long-term investment in our country through multinationals in the oil, construction and agri-food sectors, which registered strong investments in 2014 and 2016 (626 Million euros in 2018), since 2005 only Uruguay appears in the list of Latin American countries with significant and recurring investments in Spain. Brazil and Venezuela, which in the past (2009-2015) played a more active role in the investment scene, have had a more modest activity in the last three years, despite the growing individual investments from Venezuela, many of them in the real estate sector of the great Spanish cities.

FIGURE 3

EVOLUTION OF THE QUARTERLY FLOWS OF PRODUCTIVE FDI RECEIVED BY SPAIN ACCORDING TO ORIGIN, 1993-2018, MILLIONS OF EUROS

Source: compiled by authors with data from the Investment Registry, 2019

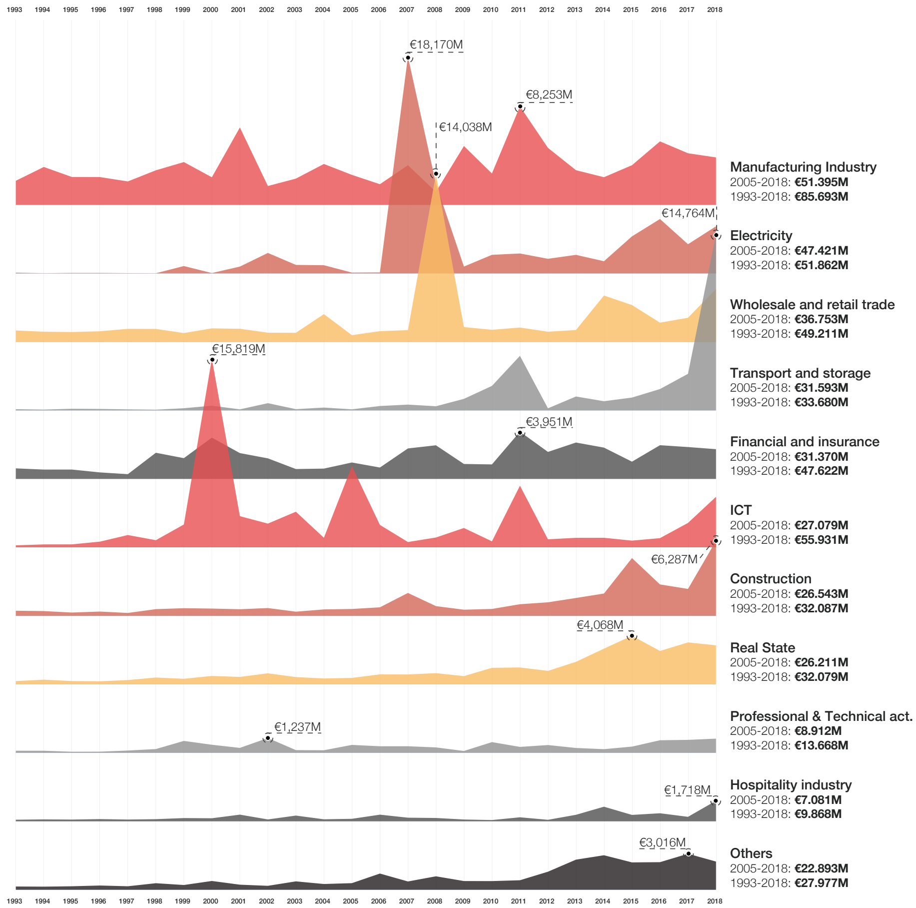
Regarding the sectoral composition of the investment of multinational companies in Spain, it should be noted that it tends to concentrate mostly in the services sector, around 60.0% between 2009-2018, while investment in the industrial sector represents 28.5% for the same period, and the construction sector accounted for 9.7% .

If we eliminate the distortion that Abertis' macro-operation represents in the Transportation and storage rubric, the sectors with the highest investment volume in 2018 were Construction (6.3 billion euros), Retail (4.4 billion), Information and Communications (4.2 billion), Manufacturing industry (4.0 billion), Electricity (3.9 billion), Real Estate Activities (3.3 billion) and the Financial sector (2.5 billion).

Although there is no clear trend regarding foreign capital companies appetite for investment in a particular sector, and despite the fact that annual variations are strongly conditioned by large operations derived from market, strategic or regulatory opportunities, we can observe a certain increase, since 2005, in investments in construction, retail or certain information and communications services, to the detriment of investment in the manufacturing industry, which, on average, has lost two points in the weight of flows of investment in this period.

FIGURE 4

SECTOR DISTRIBUTION OF GROSS INVESTMENT FLOWS IN SPAIN, MILLIONS OF EUROS



Source: compiled by authors with data from the Investment Registry, 2019

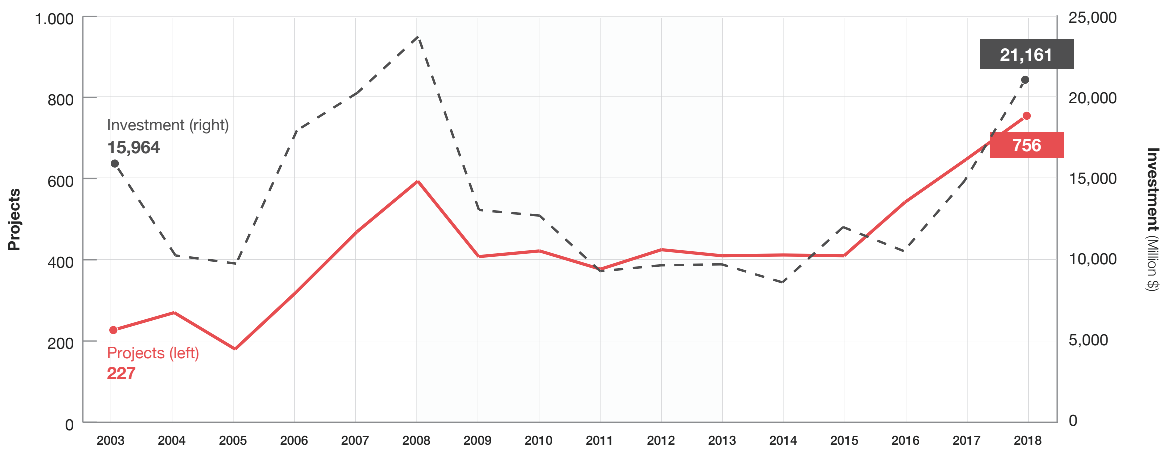
1.2
GREENFIELD AND M&A PROJECTS AND INVESTMENTS

According to UNCTAD data based on the information provided by the Financial Times through fDi Markets, Spain received a total of 6,866[7] greenfield projects between 2003 and 2018, 2.9% of the total projects announced worldwide. The total value of the projects announced in Spain during this period amounts to $ 220.2 billion, an average of $13.8 billion annually.

The progression both in the number of greenfield projects received by Spain (755, 17% more than in 2017) and in their estimated value ($21.2 million, year-on-year growth of 42.5%) follows the positive trend initiated in 2015.

In 2018, the value of greenfield projects increased by 41% in the world, although the increase in the number of projects was 7%, indicating, in any case, a growth in the average size of the projects. In Spain there was a growth of 16.9% in the number of projects, whose size was also larger (21.7%), from $23 million in 2017 to $28 million in 2018.

FIGURE 5
EVOLUTION OF GREENFIELD PROJECTS ANNOUNCED IN SPAIN, 2003-2018

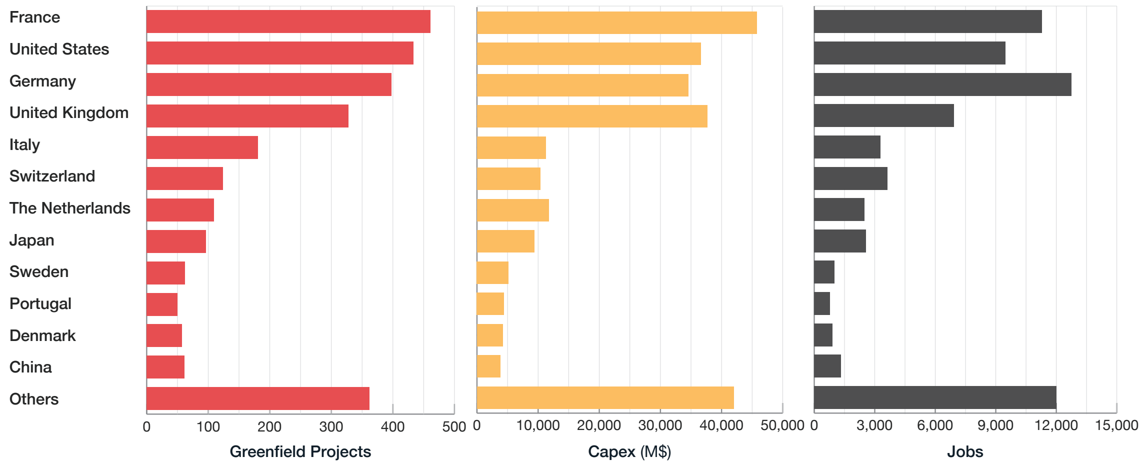


Source: Compiled by the authors, based on data from fDi Markets, August 2019

If we analyze greenfield projects in the last five years (2015-June 2019) according to their countries of origin, we find that France leads the ranking by number of projects (461) and number of jobs generated (45,754), the United States comes next in the number of projects (433) and number of companies created (354), and Germany leads the volume of investment with $ 12,755 million.

According to the fDi Markets database, the total number of greenfield projects generated in the last five years in Spain has reached 2,722, corresponding to 1,962 companies, with 256,821 jobs created. The four major EU countries, France, Germany, the United Kingdom and Italy, together with the US, account for 64% of the new businesses, employment and investment generated.

FIGURE 6
MAIN GREENFIELD INVESTORS IN SPAIN, 2015-2019



Source: Compiled by the authors based on data from fDi Markets. Data up to June 2019

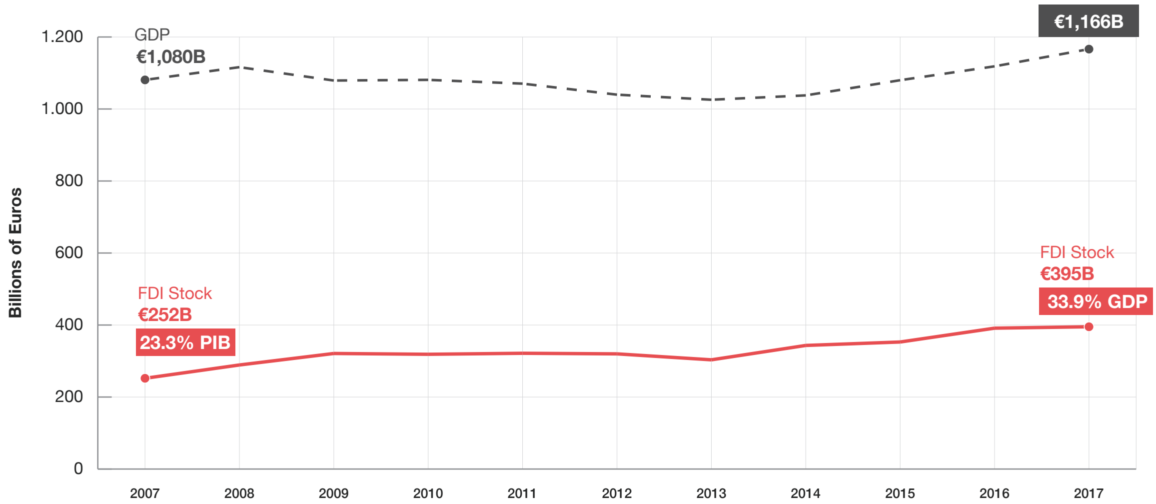
According to the same source, the value of cross-border M&A operations in Spain amounted to $70.7 billion in 2018, 8.7% of the world total. The average weight of Spain in global cross-border operations in the last ten years totals 3.5%, a figure that is similar for greenfield projects. These data show the appetite of foreign investors for the opportunities generated by Spanish companies, as well as the changes in ownership that have occurred in recent years in favor of foreign companies and investors. Once again, 2018 is atypical because of the major operation concerning Abertis, which has raised the Spanish participation in total global operations well above the importance of its economy.

1.3 THE SUSTAINED COMMITMENT OF MNEs TO SPAIN: A LOOK AT THE INVESTMENT STOCK

The total investment position of foreign capital companies in Spain is a good indicator of the degree of confidence that investment companies have in the country's economy over time. Thus, the total position, represented by the investment stock, is an indicator of the lasting confidence of investment companies in the country.

This position stood, according to the latest available data provided by the Registry of Foreign Investments (RIE) in June 2019 corresponding to the stock for 2017, at 435.3 billion euros (395.2 billion if only productive investments are taken into account, without ETVEs). This represents a slight fall compared to the previous year, motivated by a decrease in the position of the ETVEs, while the position in non-ETVE companies registered an increase of 1%, reaching thus the historical maximum of the series.

FIGURE 7
COMPARATIVE EVOLUTION OF FOREIGN INVESTMENT STOCKS IN SPAIN AND GDP, NON-ETVES, BILLIONS OF EUROS



Source: Registro de Inversiones and INE (2019)

SINCE 2007, AT THE BEGINNING OF THE ECONOMIC CRISIS, FOREIGN CAPITAL COMPANIES HAVE INCREASED THEIR POSITION WITH RESPECT TO SPANISH GDP BY 9 PERCENTAGE POINTS, FURTHERING THEIR COMMITMENT TO SPAIN, WHILE DISPLAYING A CLEARLY COUNTER-CYCLICAL BEHAVIOR

This value, which has increased by 25% since 2013, indicates, therefore, the long-term commitment of foreign investors to the Spanish economy, and already represents 37.3% of Spanish GDP if ETVE investments are taken into account.

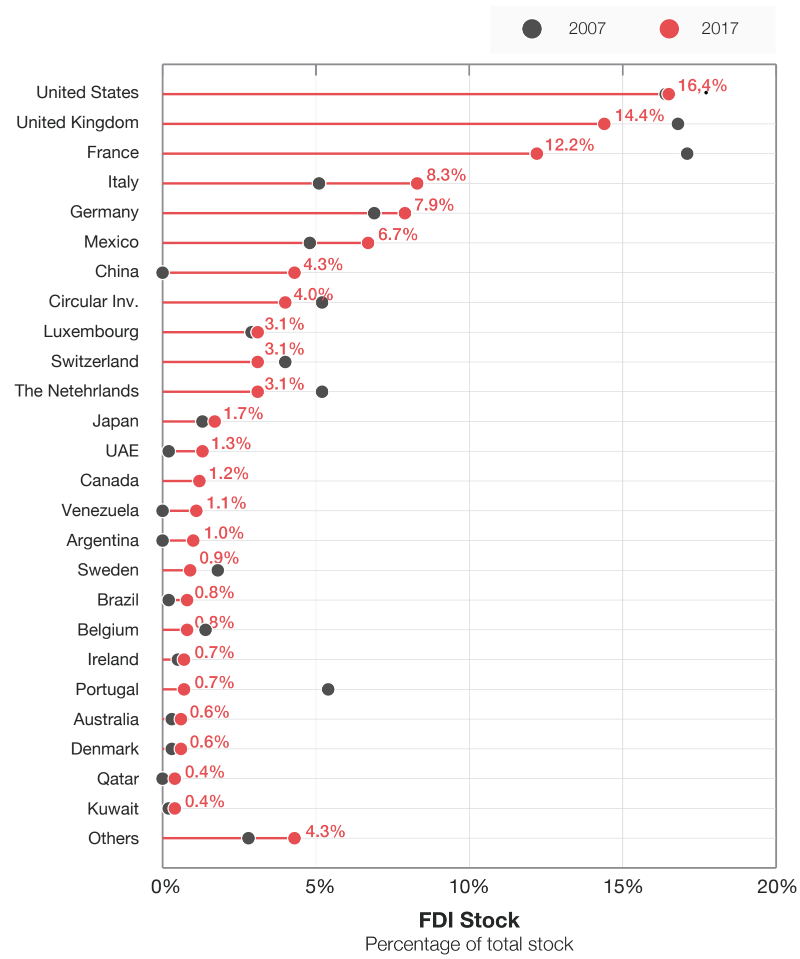
These figures can also be interpreted in terms of the population residing in Spain. The investment position of foreign capital companies amounts to 9,355 euros per inhabitant, 37.8% higher than in 2007.

In addition, it is necessary to point out the positive evolution of asset growth registered by the multinationals based in our country. Thus, and with regard to the net worth or total value of companies (non-ETVE) with foreign capital in Spain, the last four years (2014-2017), in which the Spanish economy have again registered rates of growth above the European average, with growth of more than 21%.

The US leads the ranking of leading investor countries in Spain. This position of the US multinationals has gained weight in recent years, absorbing 16.4% of the existing investment stock in 2017. However, investments from the United Kingdom, France, Italy and Germany, the four major European countries, in this last year represented 45.9% of the total stock.

Also worth is noting the rapid growth of Chinese multinational companies, which starting from a practically residual investment, as of 2011, with the acquisition of the assets in Spain of the Portuguese company EDP, have greatly increased their commitment to Spain. These investments have been led in recent years by companies in the telecommunications and financial services sector, among others, reaching a stock of 16.9 billion euros in 2017, 4.3% of the total, an increase of 60% compared to the year before. Since in some cases the arrival of Chinese investment has occurred through acquisitions of companies in other countries that had significant assets in Spain, these operations are not always visible when analyzing flows.

FIGURE 8
MAIN INVESTOR COUNTRIES IN SPAIN, NON-ETVE FDI STOCK, PERCENTAGE OF TOTAL STOCK



Source: Registro de Inversiones, 2019

1.4
IMPORTANCE OF FOREIGN COMPANIES IN SPAIN

The commitment of multinational companies with the country is also reflected in the total number of companies with foreign capital registered in Spain, which, according to the Investment Registry RIE, rose in 2018 to 14,634. Of these 5,850 (40% of the total) were head companies of the reporting group and the rest (8,784), were partially owned by the previous ones.

The number of companies has not stopped growing since 2003, registering an increase of 37.9% since then and of 17.6% since 2014, year in which the main indicators of the Spanish economy showed signs of recovery after the 2007 crisis. Indeed, not even in worst years of the crisis, with the slowdown in growth and the loss of employment suffered, did foreign investors stop taking positions in assets and companies in the country, thus increasing their investment position and associated stock.

TABLE 1
EVOLUTION OF THE NUMBER OF FOREIGN COMPANIES IN SPAIN

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Var.
Nivel 1	3.923	3.980	4.219	4.316	4.655	4.553	4.858	4.638	4.865	4.778	5.791	**5.850**	1,0%
Nivel 2	4.340	4.340	4.862	4.931	4.965	4.928	5.120	5.124	4.740	4.815	5.451	**5.359**	-1,7%
Nivel 3	2.055	2.163	2.855	3.023	2.913	2.957	3.164	3.167	2.836	2.753	3.423	**3.425**	0,1%
TOTAL	**10.318**	**10.483**	**11.936**	**12.270**	**12.533**	**12.438**	**13.142**	**12.929**	**12.441**	**12.346**	**14.665**	**14.634**	**-0,2%**

Source: Investment Registry, Direct Investment Position Reports, 2007-2018
Note: Level 1: Head Company of the reporting group. Levels 2 and 3: Companies partly owned by first level companies

In addition, the level of control over the partly owned companies in the country is very high, with 85.2% of them controlling more than 75% of the total capital of the company, and 76.6% maintaining a 100% stake in the company.

If we analyze the consolidated data at the group level, that is, assigning to the head company the data corresponding to its subsidiaries, we can see that the stock is very concentrated in large companies: companies with more than 250 workers and turnover exceeding 50 million Euros, which barely represent 28% of total companies, are responsible for 91.3% of the stock. In the same way, these larger subsidiaries represent 93.8% of the turnover, which in 2017 reached a total volume close to 450 billion euros in Spain.

1.5
TURNOVER AND RESULTS

The National Institute of Statistics (INE) published last September 2019 the data corresponding to the annual survey of foreign subsidiaries (FILINT), an additional source to that of the Investment Registry (RIE), which includes information regarding foreign companies from the industrial, retail and non-financial services sectors in 2017. Well, according to this source, the number of foreign subsidiaries amounts to 12,953. In the last ten years, from 2008 to 2017, the number of foreign affiliate companies has grown by 84%, from 0.3% of the total number of companies in Spain to 0.6%.

Subsidiaries whose parent company is in EU countries amount to 72.2%. Germany, France and the United Kingdom (35.5% among the three countries), and the US (10.5%) account for the lion's share of multinational subsidiaries in Spanish territory. In terms of their sector activity, 42.4% belong to the non-financial services sector, 31.9% to the retail sector and 25.5% are in the industrial sector.

More significant than the number of subsidiaries are the data corresponding to the turnover resulting from their activity in Spain. This figure amounted to 554 billion in 2017, having increased 27.5% since 2013, and 43.3% in the last ten years. In addition, when compared to the turnover of the total of companies with activity in Spain, the turnover of these subsidiaries accounts for 30% of the total turnover registered in our country.

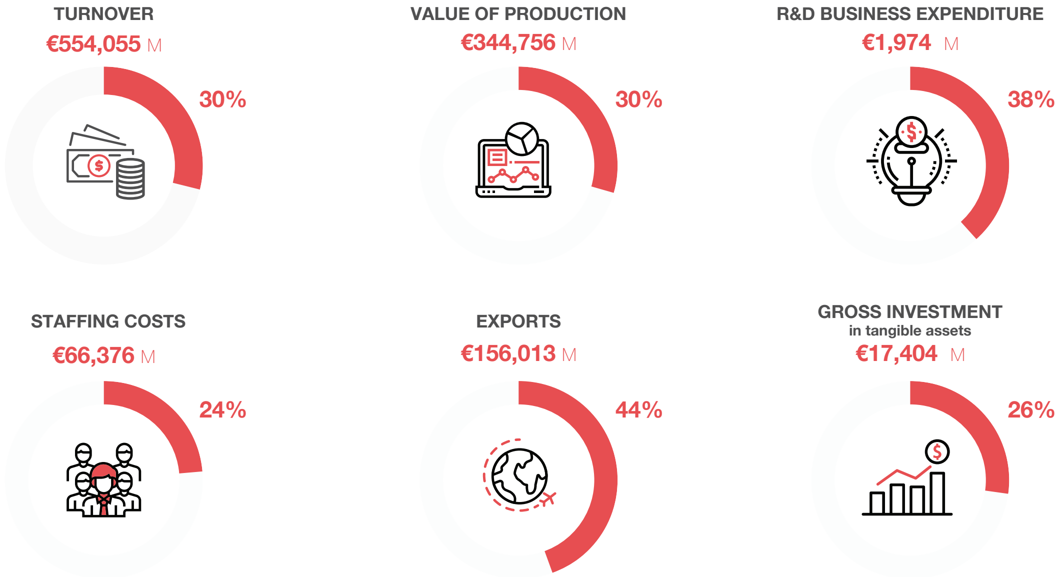
0.6% OF SPANISH COMPANIES ARE SUBSIDIARIES OF FOREIGN MULTINATIONALS. THEY GENERATE 30% OF THE TURNOVER AND EMPLOY 14.7% OF WORKERS IN SPAIN

That is, 0.6% of Spanish companies, i.e. subsidiaries of foreign multinationals, generate 30% of the total turnover.

If we break down this data by sector we find that subsidiaries of industrial multinationals account for the most part of total turnover. Thus, and always according to the National Institute of Statistics INE, the 3,113 subsidiaries of this sector (1.8% of the industrial companies operating in Spain) generate 41.3% of the industrial business volume. In retail, 4,140 subsidiaries of multinationals (0.5% of the total), represent 26.1% of the total turnover of this sector, while 5,500 of the non-financial services sector (0.4% of the total) generated 21,3% of turnover in Spain.

Among the industrial sectors, those with the greatest presence of foreign capital are Transport Material (85.5% of the turnover originates in foreign capital companies), Electronic and Optical Equipment (58.5%) and Chemical and Pharma (52.8%).

FIGURE 9
IMPACT OF FOREIGN SUBSIDIARIES IN SPAIN



Source: National Institute of Statistics (INE), Statistics of Foreign Subsidiaries in Spain and Salary Structure Survey, 2019

Another interesting feature of the activity of multinational companies in Spain has to do with their contribution to the generation of added value (cash added value) to the national economy. The latest data provided by the INE amounts to 114.4 billion euros, just over 10% of the national cash added value. The contribution made by multinational subsidiaries has grown 55.6% since 2008, while, in terms of national accounting, the Spanish economy as a whole shows an increase of 3.1% during the same period.

The positive influence exerted by multinational companies in Spain in terms of company profits, together with the greater presence of subsidiaries of foreign multinationals in our country, and the consequent increase in their weight in the business fabric, is also reflected in terms of employment and the labor market, as detailed in the following section.

NOTES

4. Real Instituto Elcano (2018)
5. ETVEs (Foreign Securities Holding Entities) are instrumental companies established in Spain whose main purpose is the holding of shares of companies located abroad (holdings).
6. UNCTAD (2019)
7. fDi Markets monitors the new investment and expansion projects that generate employment and capital investment. It checks a high percentage of the data with the source companies. It does not include information on the equity participation of investors, which suggests that their data may include investments that would not qualify as FDI in a "strict" approach. The data recorded are those committed by the company at the time of announcing the project, and the status of the investment in successive years is not updated.

02

THE IMPACT OF MULTINATIONAL COMPANIES IN THE SPANISH LABOR MARKET

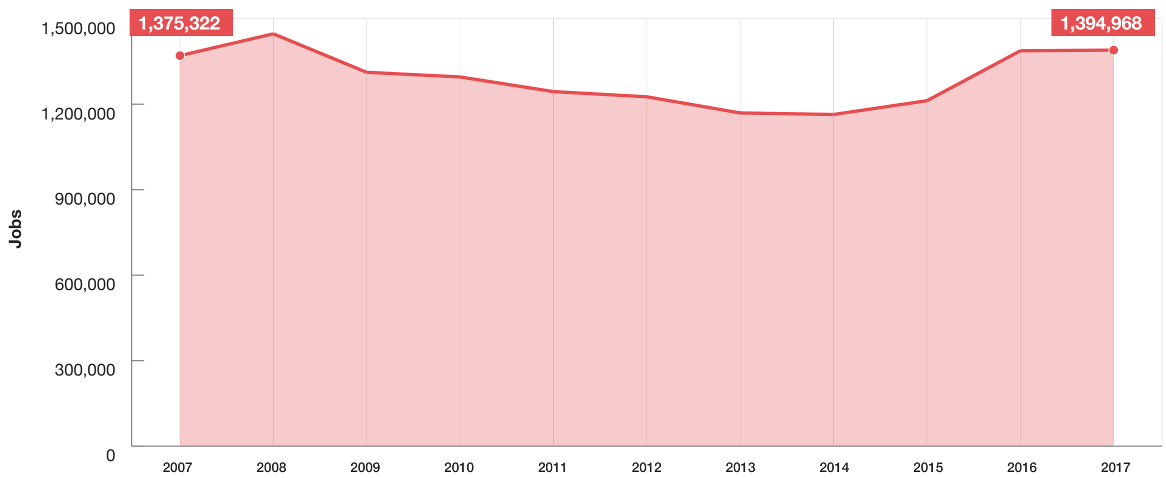
2.1 IMPACT ON JOB CREATION

Foreign capital companies, due to their larger size, represent a higher percentage of employment than their share by number of establishments and make a very significant contribution to economic growth and territorial development in Spain.

The latest foreign investment data provided by the Investment Registry (RIE) regarding the investment stock indicates that the 14,364 registered foreign capital companies[8] employed 1.39 million workers in 2017, 7.6% of the total in Spain. In addition, and from another perspective, five of the ten Spanish companies with the highest number of employees have direct foreign investment.

Employment generated by foreign capital companies is concentrated in a relatively small group of companies. Thus, the largest companies (28% of the total) occupy 92.1% of these workers .

FIGURE 10
EVOLUTION OF THE STOCK OF EMPLOYMENT DERIVED FROM FOREIGN INVESTMENT IN SPAIN, NON-ETVE



Source: Registro de Inversiones, September 2019
Note: The Ministry's Investment Registry calculates employment as the average number of employees of the Foreign Investment Receiving Companies, associated with the value of the position

The MNEs of the main investing countries in Spain concentrate, unsurprisingly, the highest number of jobs. Thus, companies from France, Germany, USA. and the United Kingdom employ a total of 788,636 people, 56.5% of all employment generated by foreign capital companies.

In relation to the sector distribution of employment of foreign companies, 65.7% is concentrated in manufacturing, retail and services (not linked to financial, professional or real estate activities).

On the other hand, the 12,953 multinational subsidiaries that the INE accounts for employ 1.6 million people, 14.7% of those employed in Spain in the sectors analysed by the institute. 42.2% of the employees of multinational subsidiaries work in the non-financial services sector, 32.4% in industrial activity and 25.5% in commerce.

If we consider total employment in Spain, the figures also reflect the importance of the employment generated by subsidiaries of foreign companies in Spain. Thus, in 2017 24% of people employed in the industrial sector worked in subsidiaries of foreign capital, a figure that rises to 13% and 12.1% in relation to total jobs in the retail and services sectors respectively.

It should be noted that the number of people employed in subsidiaries of multinationals in Spain grew, by 33.4% between 2008 and 2017. During the same period, the Spanish economy as a whole lost, instead, 5.3% of the volume of employment. This data clearly demonstrates the anti-cyclical role played by foreign capital companies, with Spanish subsidiaries increasing net employment and mitigating thus the harm inflicted by high unemployment rates.

BETWEEN 2008 AND 2017, THERE WAS AN INCREASE OF 33.4% IN PEOPLE EMPLOYED IN FOREIGN CAPITAL SUBSIDIARIES, WHILE THE LABOR MARKET LOST 5.3% OF ITS JOBS IN THE SPANISH ECONOMY AS A WHOLE

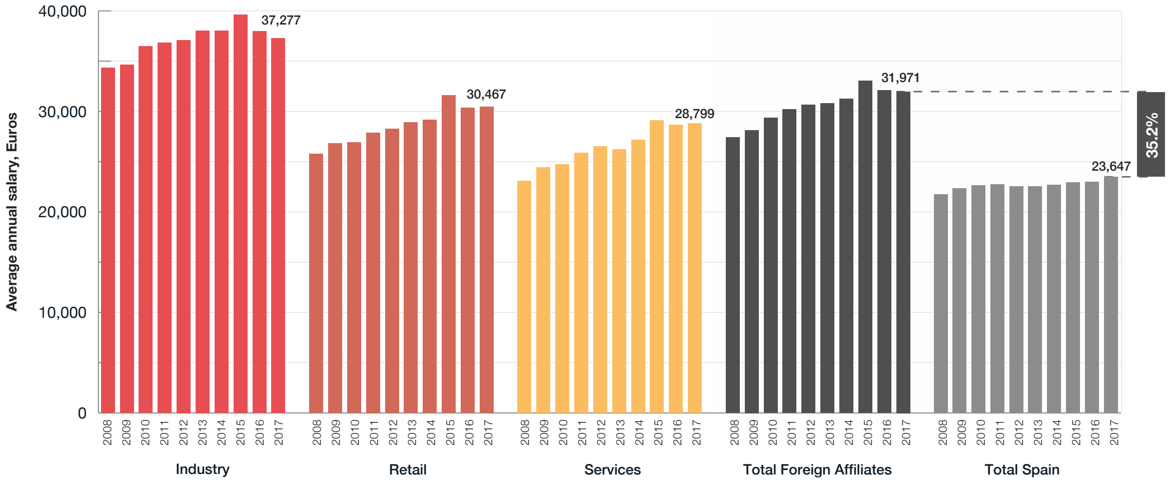
2.2 WAGES AND QUALITY OF EMPLOYMENT GENERATED

The positive data on the employment generated by foreign capital multinational subsidiaries are complemented with those related to the salaries received by those employed in these companies. As can be seen in the figure shown below, the average salary in the last available year amounts to 31,971 euros, a salary that rises to 37,277 euros in the industrial sector. Salaries grew during the most intense years of the recent crisis, until 2015, with wage increases stabilizing in the last two years for which data is available.

If we compare the average salaries of the total Spanish economy with those perceived by the workers of subsidiaries of foreign capital companies, the latter earn 35.2% more, a gap that has been widening in the last decade. Nonetheless, the average salary in Spain has remained stable, with slight upward variations, since 2008.

FIGURE 11

EVOLUTION OF THE AVERAGE SALARY IN FOREIGN SUBSIDIARIES BY BRANCH OF ACTIVITY, EUROS



Source: National Institute of Statistics INE, Statistics of Foreign Subsidiaries in Spain and Salary Structure Survey, 2019

It is safe to assume that the higher salary is associated with a higher quality of employment by foreign multinational subsidiaries, which, as will be seen below, excel at attracting national and international talent.

2.3 AGGREGATE IMPACT OF FOREIGN INVESTMENT INFLOWS

The aggregate impact of FDI on an economy is not easy to isolate or measure, because it responds to many factors. The positive overall effect comes from the growth of gross capital formation and the introduction of new technologies, which contribute to the improvement of productivity and economic growth.

On the other hand, it should be noted that the profitability of foreign investment is one of the fundamental elements that justify its existence and define its future, and its subsequent impact on the economy. The strength of the accumulated assets and how efficiently they are used is manifested in the evolution of their figures. Moreover, high levels of FDI profitability are a source of new investments. Indeed, between 2004 and 2016 FDI profitability and the economic cycle in Spain have been highly correlated, with greater growth in revenues obtained after the crisis[9].

The aggregate impact of business activity can be analyzed by studying the way in which EMN's foreign subsidiaries have increased productivity through technological externalities applied to local businesses and the increased competition in markets.

Thus, in previous academic studies[10], the effect of foreign investment on the Spanish economy was calculated using simulation models. The modelling used allows the simultaneous treatment of microeconomic variables (such as the production costs of national and multinational companies in the different sectors and their levels of production and employment), together with the macroeconomic variables (GDP, wages). In this way, the aggregate and sectoral impact of FDI inflows can be estimated in a consistent manner.

These models estimated an increase of well-being of 2.79% between 2006 and 2013, based on a contribution to the increase in employment of 5.25% during the period, together with a decrease in the unemployment rate of 3.15% and a 1.89% increase in real wages.

In any case, the calculations made for the 2014-2018 period show that net investment flows in the Spanish economy made a very similar contribution to those for the 2006-2013 period. That is, the impact of the foreign investment received in the last five years on the Spanish economy is very similar to that recorded in the eight years that have elapsed since the toughest years of the economic crisis in Spain, as can be seen in the attached table.

TABLE 2
MACROECONOMIC IMPACT (CONSTANT PRICES) OF NET FDI FLOWS FOR 2006-2018

PERIOD	GDP	SALARIES	EMPLOYMENT	UNEMPLOYMENT	INVESTMENT annual average
2006-2013	3.96	1.89	5.25	-3.15	12,305.17
2014-2018	3.62	1.72	4.80	-2.88	18,019.63
2006-2018	**7.58**	**3.61**	**10.05**	**-6.03**	**14,503.03**

Source: Compiled by the authors based on the work of A. Gómez Plana and M. Concepción Latorre (2014)

The model does not take into account the repatriation of incomes obtained by the investment companies, which, as was seen last year after the Trump administration's fiscal modification, can vary the sign of the investment of the issuing and recipient countries - UNCTAD itself estimates that these amount to 65% in developed countries. Obviously, the higher the income repatriation, the lower the positive effects for the receiving economies, which also depend on the investment sector. Therefore, these results should be taken as maximum real impact of the net investment flows on the Spanish economy.

In any case, and as some authors point out[11], FDI data does not take into account the significant rise in local capital brought on by productive investment, which sometimes

BETWEEN 2006 AND 2018, FDI OF THESE COMPANIES IN SPAIN CONTRIBUTED 7.6% TO GDP GROWTH, A RISE OF 3.6% IN WAGES AND OF 10.0% OF IN EMPLOYMENT, IN ADDITION TO HELPING TO REDUCE UNEMPLOYMENT BY 6.0%

reaches up to 60% of the total value of an investment project. In this sense, it can be said that FDI data underestimate the contribution of foreign companies and investors to the formation of domestic capital, and therefore, to the contribution to local wealth and economic growth.

Assessing the real global impact of foreign capital companies in the economy is manifestly complex, since it depends on factors such as those mentioned above, like the degree of repatriation of the incomes obtained, which tend to lessen the impact, or the drag effect on local capital and investment which tend to increase said impact.

In any case, the estimate made is an approximation that, beyond the adjustments that may be suggested, underscores the importance of the contribution of the investment carried out by foreign capital companies.

2.4 COVERAGE OF FINANCING NEEDS

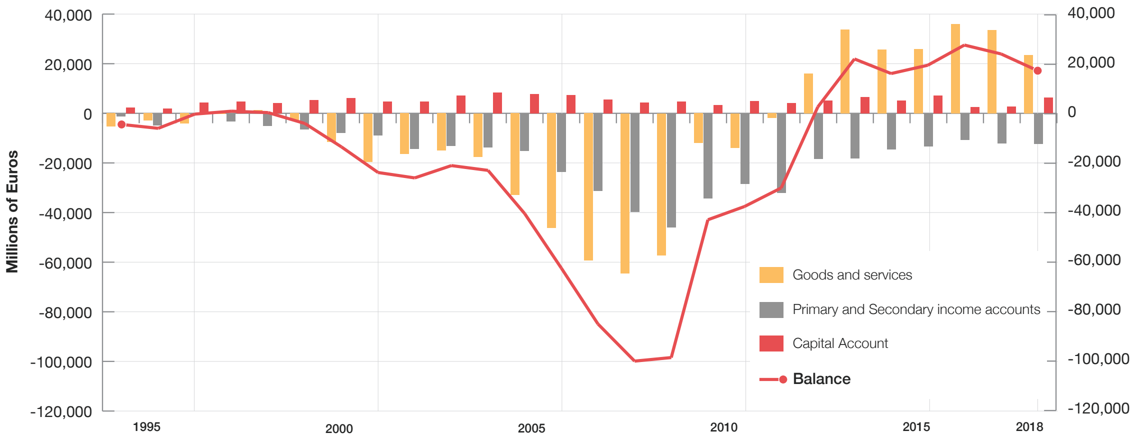
Spain is an open economy, whose balance of payments shows a high vulnerability and a strong dependence on foreign savings. Even so, the Spanish economy is proving to be remarkably resistant in an external environment marked by the uncertainty and weakness of global trade.

FDI flows have helped to avoid the strangulation that Spain would have suffered due to its lack of equity capital, helping to boost productive investment in the economy and maintain investment dynamism when access to financing is difficult. Due to the significant increase in investments by Spanish companies abroad since the turn of the century, Spain is a net exporter of FDI, and its needs linked to FDI positions abroad and the increase in domestic spending offset the investment in portfolio financing.

The external financing capacity maintained in recent years, mainly between 2015 and 2018, has led to a reduction in the negative balance of the International Investment Position (IIP) in net terms. As a percentage of GDP, net IIP has fallen from a level close to 100% in 2014 to 77.1% of GDP in 2018[12].

In this sense, it should be noted that the Spanish economy has been able to reconcile external surpluses of relatively high magnitude during the current expansive period with a remarkable growth rate. This constitutes a positive change compared to previous bullish phases and even in relation to other neighbouring economies.

FIGURE 12
FINANCING CAPACITY OF THE SPANISH ECONOMY



Source: Bank of Spain, 2019

In terms of financial flows, in 2018 international investors made net purchases in portfolio investment (mainly, long-term fixed-income securities issued by the Public Administrations) and direct investment, a sign that they have maintained their confidence in the Spanish economy, despite the deterioration of the global financial scenario during the second half of the year.

2.5 FISCAL CONTRIBUTION OF MNEs

The debate on the tax contribution of multinationals is currently centered on the need to formulate an effective and coherent approach to international taxation in the digital economy, a particularly complex issue subject to different opinions.

Likewise, and with respect to the increase in fiscal competition, governments are adopting increasingly sophisticated approaches within the restrictions imposed by multilateral agencies[13].

In general, corporate taxes continue to fall, a trend that is likely to accelerate as countries respond to tax reforms in the United States. Tax incentives are increasingly focused on intangible assets, as can be seen from the greater use of the patent box. Many countries have low tax regimes for people with high incomes and high net worth. State and local governments are increasingly providing special tax exemptions on land and building taxation. The use of special economic zones is spreading. And governments now recognize that providing a favorable tax administration to businesses is a very effective way to attract economic activity: one that provides certainty, consistency and predictability, and effective ways to minimize and resolve cross-border tax disputes. Thus, it is likely that fiscal competition will continue to prosper.

On the other hand, the international tax community is evaluating how to reduce fiscal uncertainty. Such uncertainty runs the risk of being especially harmful for global investment, which has already lost a lot of growth momentum in recent times. These efforts are all the more important in a scenario where the world is experiencing a potentially toxic mix of political and economic uncertainty and an increase in trade and investment protectionism.

In this global framework, it is necessary to achieve the right balance between the interests of government, business and citizens. This is not always easy, but it is especially important at a time when the benefits of globalization are being questioned.

The UNCTAD notes that the contribution of private business activity (both from local companies and foreign capital) to public revenues in developed countries amounts to 34% on average and represents 13% of GDP.

In any case, estimating the tax contribution of foreign capital companies in a given country is not a simple exercise. Firstly, because there is no data available on taxes paid by subsidiaries of foreign companies at the country level. Secondly, because in this context, the tax contribution of MNEs has to be interpreted in a very broad way, including all income paid by companies. The two methods of approximation to determine the tax contribution of foreign capital companies deemed most appropriate by multilateral organizations are:

- Approach based on the economic contribution that foreign capital companies report to the recipient economy, that is, the economic market value of the business activity, which is the approach that is being followed in this report.
- Approach based on FDI income receipts. This approach is based on balance of payments data provided by the Central Banks of each country instead of the registry data which in Spain are provided by the State Secretariat for Trade.

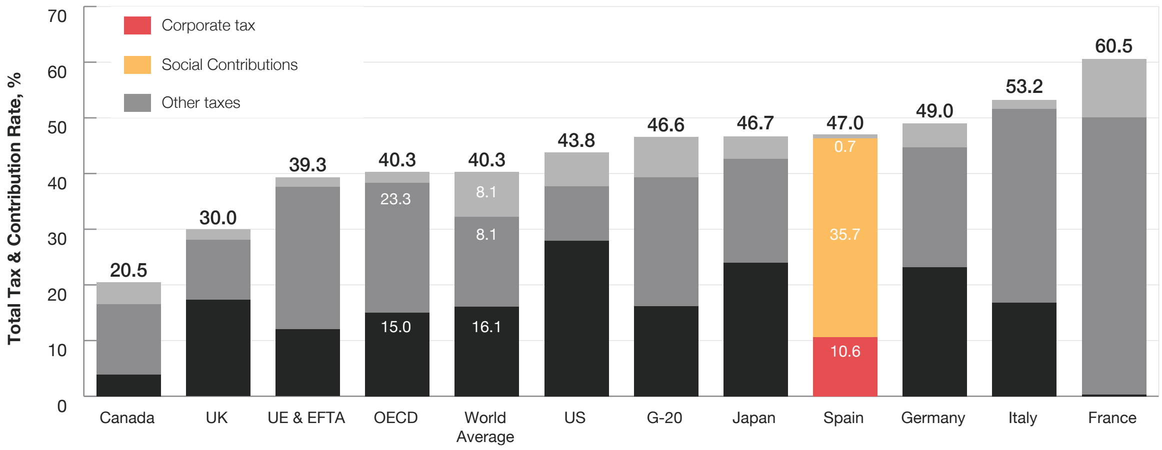
Apart from these general considerations, some data of the corporate tax contribution can be mentioned in the case of Spain. Thus, and according to the Paying Taxes report (2019) prepared by PwC for the World Bank, which analyzes the tax systems of 190 countries around the world, the tax contribution of companies operating in Spain, both of local and foreign capital, is higher than the average for the OECD, the G20 or the European Union itself.

Said tax contribution, understood as the percentage of profits that companies allocate to the social contributions of their employees and to the payment of taxes such as corporate tax, stands, in the case of Spanish companies, at 47%, well above the 40.3% average of the OECD and the 39.3% of the European Union. It is also slightly higher than the 46.6% average for the G20 countries

Of the total amount paid by Spanish companies, 35.7% corresponds to the payment of social contributions of their employees, 10.6% goes to the payment of corporate tax and another 0.7%, to other taxes. Thus, companies operating in Spain dedicate ten percentage points more than the EU average to Social Security contributions (25.6%) and even more than the OECD average (23.3%).

Even so, the share of the total tax contribution of Spanish companies dedicated to the payment of contributions for their employees has been at its highest level since 2007. On the other hand, the share destined to the payment of corporate tax remains at levels well below those registered in 2013 –21.7% of the total tax contribution of companies, compared to the current 10.6 %-.

FIGURE 13
TOTAL TAX CONTRIBUTION OF COMPANIES IN THE WORLD, PERCENTAGE OF BENEFITS



Source: Compiled by the authors based on PwC data (2019)

The tax contribution of foreign subsidiaries in Spain can be calculated using the average effective rates of the main taxes and the Social Security contributions. According to these data, in 2017 subsidiaries of foreign companies contributed approximately 20.8 billion euros to the Social Security in the form of Social Contributions[14], which represents practically 19% of the total (109.0 billion). Taking into account the average effective rate of personal income tax in 2017 (15%), the staff costs of foreign subsidiaries established in Spain accounted for a contribution of about 10 billion euros, representing a 13% contribution on personal income tax accrued in the year (77 billion euros).

NOTES

8. In the same year, the total number of companies in Spain amounted to 3.34 million, of which only 1.5 million had employees, and only 71,472 had more than 20 employees.
9. Implicit profitability calculated as the ratio between the results of the year / FDI stock of the previous year.
10. In the Foreign Multinationals for the Spain brand study: "Foreign multinationals in Spain: Analysis of their contribution to Spanish growth and development" carried out in 2016, the model developed by A. Gómez Plana and M. Concepción Latorre "Effects of FDI received on the Spanish economy" in R. Myro (Dir.) Spain in International Direct Investment, Economic Studies Institute, 2014. The model used is an applied general equilibrium model (Computable general equilibrium model CGE).
11. Henry Loewndhal (2019), Fdi Markets Magazine, July.
12. Despite this reduction, this indicator remains at high levels, both from a historical perspective and compared to other economies in the environment, and is a source of vulnerability. According to the Bank of Spain, reducing this vulnerability requires the accumulation of current account surpluses over an extended period of time.
13. Action 5 of the OECD / G20 BEPS (Base Erosion and Profit Shifting Project), the EU Code of Conduct and the State Aid Rules, and the World Trade Organization (WTO) subsidy.
14. The estimate includes common contingencies (labor and employer quota), the contribution to unemployment, vocational training and Fogasa. 30% of the workforce has been estimated as a maximum

03

THE ROLE OF MULTINATIONAL COMPANIES IN CHANGING THE SPANISH PRODUCTIVE MODEL TO A KNOWLEDGE BASED ECONOMY

3.1

THE INCIDENCE OF MULTINATIONALS IN THE TRANSFER OF TECHNOLOGY AND KNOWLEDGE

Multinational companies are the major actors in Research and Development (R&D) activities worldwide. In the United States, 71% of private investment and 56% of the workforce associated with R&D activities come from companies that have subsidiaries in other countries[15].

On the other hand, the tech revolution is changing traditional production models, much more focused now on the accumulation of knowledge and talent. These changes will produce winners and losers: on the one hand, there will be territories capable of producing and concentrating talent and innovation; and on the downside, there will be those who lose their better-trained citizens and do not produce companies on the forefront of technology and do not generate enough prosperity.

In this context, multinational companies adopt two basic strategies to internationalize innovation: the exploitation of their own competencies in other markets and the creation of traditional technological competences by seeking new knowledge in other countries. In accordance with these strategic approaches, in recent years it is becoming apparent that the role of MNE subsidiaries is paramount, since decisions not only respond to the mandates and hierarchy of the parent company; indeed these subsidiaries have an increasingly important level of relative autonomy[16].

Although these processes are not linear, we can currently identify several trends when analyzing the role of multinational companies in innovation in Spain, and, ultimately, in their contribution to the change of productive model.

The first has to do with a reversal towards a recentralization of the generation of knowledge, innovation and technologies - the clusters and ecosystems mentioned above -, as well as the new conditions imposed by the increasing digitalization of productive activities and of production support.

Secondly, the increasingly evident consolidation of the so-called intensive subsidiaries (superstars) that play a role within the structures of MNEs that does not respond to the more classical patterns, by performing, for example, globally mandated technological tasks within the functional division of work in the group[17].

This coincides with the emergence of what the OECD calls frontier firms. Indeed, in recent decades there has been a clear concentration of productivity growth in a small group of companies, which accounts for around 10% of the total, and that has seen how their productivity grew on average by 30% during the last decade, while the rest did not observe any increase at all.

3.2 THE INNOVATIVE ACTIVITY OF MULTINATIONAL COMPANIES, THE DRIVING FORCE BEHIND THE TRANSFORMATION OF THE ECONOMIC MODEL

The basic premise that underlies the existence of indirect effects of MNEs on local companies is that multinationals with foreign capital are technologically superior, which, together with the existence of unexpected profits, may result in transfers to local companies, resulting in productivity growth for the host economy. However, the creation of domestic linkages between multinational and national companies and how strong these relationships are will depend on the capacities of the local economy in which they are based, and on the absorption capacity of national companies.

Because these types of externalities are difficult to measure, the literature has tried to analyze the correlation between international investment on the one hand and performance (productivity, sales, R&D, etc.) of potential beneficiaries in the host country in the other. These types of indirect effects can be of three types

Effects on the labour mobility, that is, highly qualified personnel who change from MNEs to national companies and who can take with them skills and knowledge that can be applied in the national company

Demonstration effects that arise when national companies attain, by imitating MNEs, a higher productive level, be it from the technologies of MNEs, reverse engineering, management models or process innovation.

Competition effects derived from vertical links within value chains, which attract the demand of national companies by multinational companies and that force national competitors to update production technologies and techniques to be more competitive.

Spain is not standing on the sidelines of these trends in which multinational companies located in the country have an important role in contributing to R&D and innovation activities.

The economic literature has shown, in any case, that innovative and R&D activity is positively correlated with business size. At the same time, the weight of foreign capital subsidiaries in the Spanish business structure has already been mentioned in response to the latter variable. Consequently, it is not surprising that foreign multinational companies, which tend to be larger than the rest of companies operating in Spain, have a significantly greater presence in R&D activities.

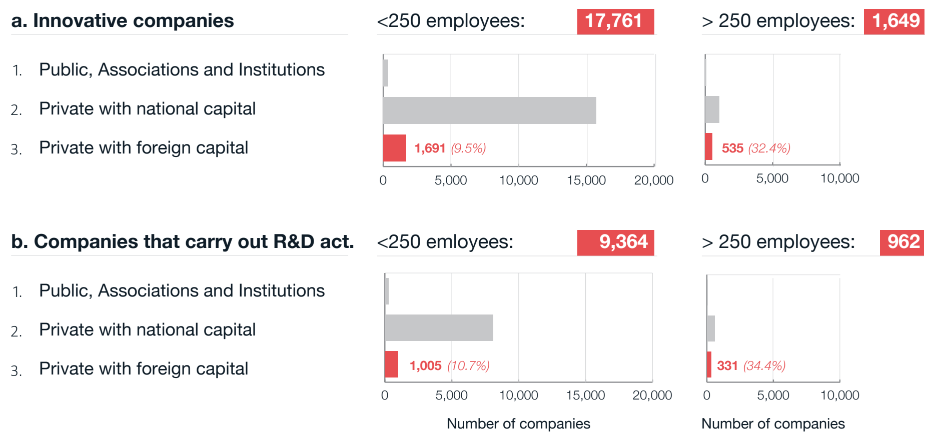
34.4% OF THE LARGE COMPANIES THAT CARRY OUT R&D ACTIVITIES IN SPAIN ARE MULTINATIONALS WITH FOREIGN CAPITAL, AND ACCOUNT FOR 38.4% OF THE EXPENDITURE ON THIS ITEM

In fact, as can be seen in the following figure, foreign subsidiaries of less than 250 employees represent 9.5% of innovative companies of that size in Spain, a figure that amounts to 32.4% when it comes to companies with more than 250 workers.

In the case of R&D activities, 10.7% of companies under 250 employees are subsidiaries of foreign capital, while when it comes to large companies (more than 250 employees), this figure increases to 34.4%. In terms of business expenditure on R&D, these companies are responsible for 38.4% of the total, a figure greater than the average for the whole business fabric.

FIGURE 14

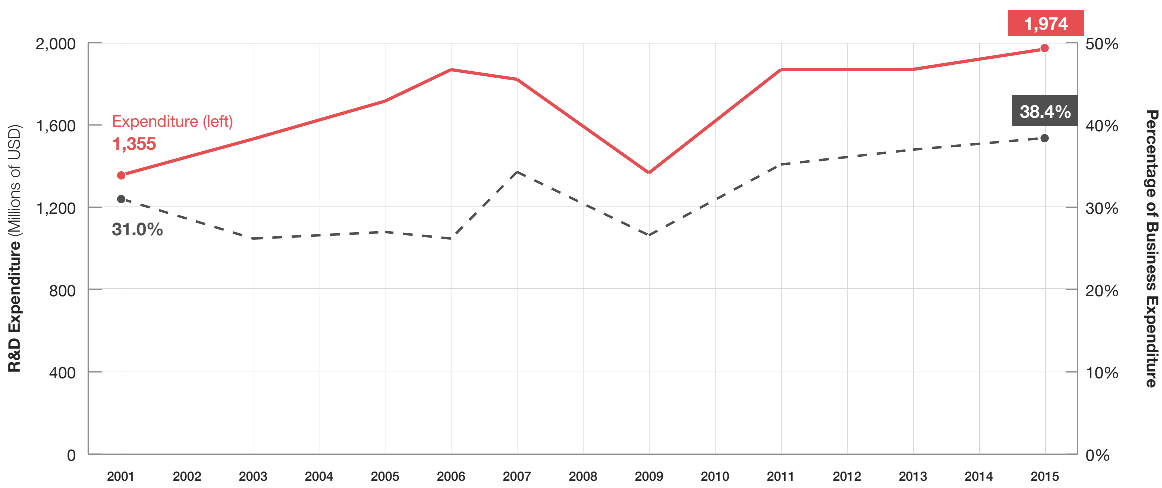
INNOVATIVE COMPANIES THAT CARRY OUT R&D ACTIVITIES IN SPAIN ACCORDING TO TYPE OF COMPANY AND SIZE, 2015-2017



Source: National Statistics Institute INE, Survey on innovation in companies and R&D Statistics, 2017
Note: "Private companies with foreign capital" are considered private companies with participation> = 10% of foreign capita

FIGURE 15

R&D EXPENDITURE OF FOREIGN SUBSIDIARIES IN SPAIN, USD



Source: OECD, Science and Technology Indicators, 2019

The GII index (Global Innovation Index) 2019 ranks Spain in the 29th position out of 129 countries, in line with the expectations for its level of economic development. This latest edition of the aforementioned index includes an important novelty, the inclusion of a Top 50 ranking of the largest science and technology clusters in the world, in which Madrid is ranked 42, the first city in southern Europe. Only one more city form this region is included, Milan in 48th place. This new classification reflects the importance of the crowding in effects of resources for R&D and innovation, their growth potential and their effects on the generation and retention of talent.

3.3 EXPORT OF LOCAL TALENT, MULTINATIONALS AND EFFECTS ON THE SPAIN BRAND

Indeed, in the last two decades there has been a clear concentration of the most sophisticated talent in certain territories where it gathers in clusters, making it clear that not all knowledge is ubiquitous. Thus, practical knowledge, that which refers to a specific industry or activity, seems to develop better in geographically close environments, which, in turn, attract other complementary agents forming specific ecosystems.

According to the academic literature on the subject[18], foreign investment of a productive nature, carried out mostly by EMN, generates spillover effects in the destination territories, improving workers qualifications and creating new jobs, while attracting new talent from abroad. This mobilization of resources works in two ways: MNEs are attracted to territories with availability of specialized local talent exchanges, while foreign talent is attracted by the clusters and ecosystems generated, on many occasions, by the multinational companies themselves.

On the other hand, as has been noted recently[19], the foreign talent that is incorporated into the scientific community of a country increases the foreign investment of local companies in innovations from the country of origin of the new foreign talent. The mechanism through which this effect operates is the development of a competitive advantage that favors the internationalization of domestic companies in this country and favors the conversion of some companies into multinationals.

Beyond the findings on this subject, the latest talent ranking[20] of the Institute for Management Development (IMD) that analyzes a significant number of indicators related to public spending and investment in education and the skillsets of local talent as well as the quality of life, puts Spain in a modest position, 31 out of 63 countries, confirming that countries that excel in talent competitiveness are not necessarily rich, rather, they are well placed in indicators of social progress and quality of institutions and tend to invest heavily in education.

The existence of programs, both of attraction and retention of talent - as well as of attention to the diaspora - that many public administrations in Spain and in other countries have developed in recent years realize the importance and growing interest in this resource when trying to increase the attractiveness of a territory and its brand, aware as they are that the availability of talent is one of the fundamental determinants of investment by MNEs.

This phenomenon is accompanied by the growing presence of Spanish executives in the boards of directors and management positions of multinationals, thanks to the acquisition by foreign groups of national companies and the increasing internationalization of Spanish companies. This group of highly relevant individuals plays a key role when it comes to attracting Spanish professionals who, at present, may be developing their professional career outside the country. Their experience, talent and level of responsibility in their groups can lure these professionals back to the country.

TABLE 3

SPANISH EXECUTIVES IN FOREIGN MULTINATIONALS

COMPANY	EXECUTIVE	COUNTRY	ROLE
AbbVie	José Miguel Martínez	US	Global Director for Innovation
Accenture	Inés Guzmán	UK	Managing Director Digital Europe and Latam
Airbus	Arturo Barreira	US	President for Latin America and the Caribbean
Renault-Nissan-Mitsubishi	José Vicente de los Mozos	France	VicePresident
Altair	Juan Carlos Martínez	US	President
APM Terminals (Maersk)	José Manuel Romero	Mexico	Finance Director Mexico
Aston Martin	Enrique Lorenzana	Germany	European Sales Director
Aura Biosciences	Elisabet de los Pinos	US	CEO
Axa Direct	Gilles Fromageot	South Korea	President and Managing Director
Boston Consulting	Jorge Becerra	Chile	Senior Partner and Managing Director
Bridgepoint Credit	Ariadna Masó	UK	Senior Associate
British Airways	Álex Cruz	UK	Managing Director
Chartboost	María Alegre	US	President of the Board
Cisco Systems	Jordi Botifoll	US	President for Latin America
Cisco Systems	Santiago Solanas	Spain	Vicepres. for South of Europe and France president
Citigroup	Manuel Falcó	UK	Global Co-director of investment banking
Citigroup	Francisco Ybarra	UK	Global markets director
Citigroup	José Cogolludo	UK	Global director for raw materials
Citibank	Sonia García-Romero	US	Director for Latin America
Cemex	Joaquín Miguel Estrada		President for Asia, Middle East and Africa
Cemex	Jesús González	Mexico	VicePresident for sustainability
Cemex	Ignacio Madridejos	US	President for US

COMPANY	EXECUTIVE	COUNTRY	ROLE
Cemex	Jaime Muguiro		President for Central and South America and the Caribbean
Cemex	Juan Romero	Mexico	President for Mexico
Cemex	Juan Pablo San Agustín	Mexico	VicePresident for strategic planning
Delta Partners	Víctor Font	UAE	Managing Director
Diageo	Javier Ferrán	UK	President
EasyJet	Alberto Rey-Villaverde	UK	Director for data science
Facebook	Javier Oliván	US	VicePresident
Fujitsu Technology	Juan María Porcar	Spain	VicePresident for Eastern Europe, Russia and Africa
Google	Bárbara Navarro	Hong Kong	Director for public policy in the Asia-Pacific region
Google	Marc Sanz	UK	Education Manager for Sou-thern Europe
Google	María Garaña	UK	General Director (Europe, Middle East and Africa)
Guess	Víctor Herrero	US	Managing Director
Havas Media	Alfonso Rodés	France	CEO Havas Media
HP Personal Systems	Cristina Bondolowski	US	Global Marketing Director
HP Inc.	Enrique Lores	US	Managing Director
Hyundai Motor	José Muñoz	South Korea	Global Director of Operations
IBM	Darío Gil	US	VicePresident IBM Research
Ikea	Juvencio Maeztu	Netherlands	VicePresident and Global Finance Director financiero global
Ikea	Belén Frau	Sweden	Global Director of Operations
Ikea	Bárbara Martín	Sweden	Digital Director for the Group
Ikea	Javier Quiñones	UK	General Director for UK
Ikea	Carolina García	Poland	General Director for Poland
Ikea	Gabriela Díaz	Japan	Marketing Director in Japan
Ikea	José Antonio Traverso	US	Stores Manager
Johnson & Johnson	Joaquín Duato	US	VicePresident
Kellogg's	Javier Letamendía		General Director for Southern Europe
KIA	Enrique Herrera		Operations Director for Europe
Kind International	Juan Bautista Martín	US	President
Lafarge Holcim	Feliciano González	Switzerland	Global Director for HHRR
LG Electronics	Carlos Olave	Soth Korea	Global Director for HHRR
Liberty Global	Borja Varela	Netherlands	Intelectual Property Director
Lloyd's Banking	Juan Colombás	UK	Global Director for Opera-tions
L'Oréal	Javier San Juan	Mexico	President for Latin America

COMPANY	EXECUTIVE	COUNTRY	ROLE
LVMH	Enrique Abad	UK	Finance Director at Moët Hennessy
LVMH-Loewe	Ainhoa García	France	Director for fashion and footwear at Loewe
Microsoft	César Cernuda	US	President for Latin America
Merck Healthcare	Belén Garijo	Germany	Managing Director
Mondelez Internacional	Antonio Vázquez		VicePresident for Asia, Middle East and Africa
Nissan Motor	José Antonio Muñoz	Japan	Global Development Director and President for China
Nissan Motor	Frank Torres	France	VicePresident and General Director for Europe
Nissan Motor	Jordi Vila	Suiza	Sales Vicepresident for Europe
Nissan Motor	Joan Busquets	South Africa	Responsible for industry in South Africa
Orangina Schweppes	Luis Bach	España	Managing Director
Os Mosqueteiros	Andrés íngel Osto	Portugal	Managing Director
Otis Elevator	Carlos Sánchez	Italia	Finance Director
Pearson	José María Tomé	US	Commercial Director
Pepsico	Ramón Laguarta	US	Managing Director
Pepsico	Belén Moreu	France	HHRR Director for Southwest Europe
Primark	José Luis Martínez	US	President for US
PwC	David Suárez	EAU	Organization Partner for Middle East
Randstad	Ana María Olcina	France	Group Marketing Director
Red Bull	Jaime Cacharrón	Spain	Marketing manager for Sou-thern Europe
Reckitt Benckiser	Ignacio Ruiz	US	Marketing VicePresident for the US
Rio Tinto	Alfredo Barrios	Canadá	Managing Director, Alumi-nium Division
Sage Group	Álvaro Ramírez	UK	Managing Director for Sou-thern Europe
Samsug Electronics	Celestino García	Spain	VicePresident
Schindler	Carlos Guembe	Spain	General Director for Southern Europe
Schindler	Juan María Arce	Suiza	Quality Manager
Scottish Widows	Antonio Lorenzo	UK	Managing Director
Sodexo Healthcare	Luis de Torres	Chile	Managing Director Latam and Brazil
Standard Chartered	José Viñals	UK	President

COMPANY	EXECUTIVE	COUNTRY	ROLE
Thomas Cook	Enrique Noguer	Spain	Hotels and resorts Director
Tim Horton's	Elías Díaz	Canada	President for Canada
Toyota	Agustín Martín	Spain	VicePresident for mobility in Europe
UiPath	Daniel Landaluce	US	VicePresident
Universal Music	Jesús López	US	President and CEO of the Latin American subsidiary
Vertex Energy	Álvaro Ruiz	US	Executive VicePresident
Volkswagen	Alfonso Sancha	Spain	Executive Purchasing Vice-President for Seat
Volvo Group	Javier Varela	Sweden	VicePresident
Zoetis	Juan Ramón Alaix	US	Managing Director
Zoetis	Juan Ramón Alaix	Estados Unidos	Consejero delegado

Source: Adapted from El País and Expansión, based in turn on data supplied by IE, IESE, ESADE

The establishment of multinational companies in a country, especially those involved in innovative or R&D activities, affects the local entrepreneurship ecosystem in various ways.

On the one hand, if we consider that networks and processes of technological transfer and innovation need to continue improving in Spain, according to the main global indicators[21], and that expenditure on R&D in relation to GDP is still behind the average of the countries, MNEs can effect change by incorporating local entrepreneurial talent to their value chains.

A growing number of large companies with foreign capital operating in Spain are developing all kinds of entrepreneurship support programs to solve competition problems between start-ups, which then become their customers. These are articulated through different initiatives (training programs in new technologies, industry-specific business schools, scholarships and awards, incubators and accelerators, agreements with universities, corporate venture capital funds, etc.), which contribute to local ecosystem development and gives a chance to the most promising initiatives.

On the other hand, according to studies such as the *Global Entrepreneurship Monitor*[22], foreigners residing in Spain tend to show a greater entrepreneurial vocation than nationals, which helps increase the country's total entrepreneurial activity index. Spain currently ranks 16th out of 54 countries in the ***National Entrepreneurship Context Index*** (NECI), an international indicator which assesses the environment for entrepreneurship in an economy.

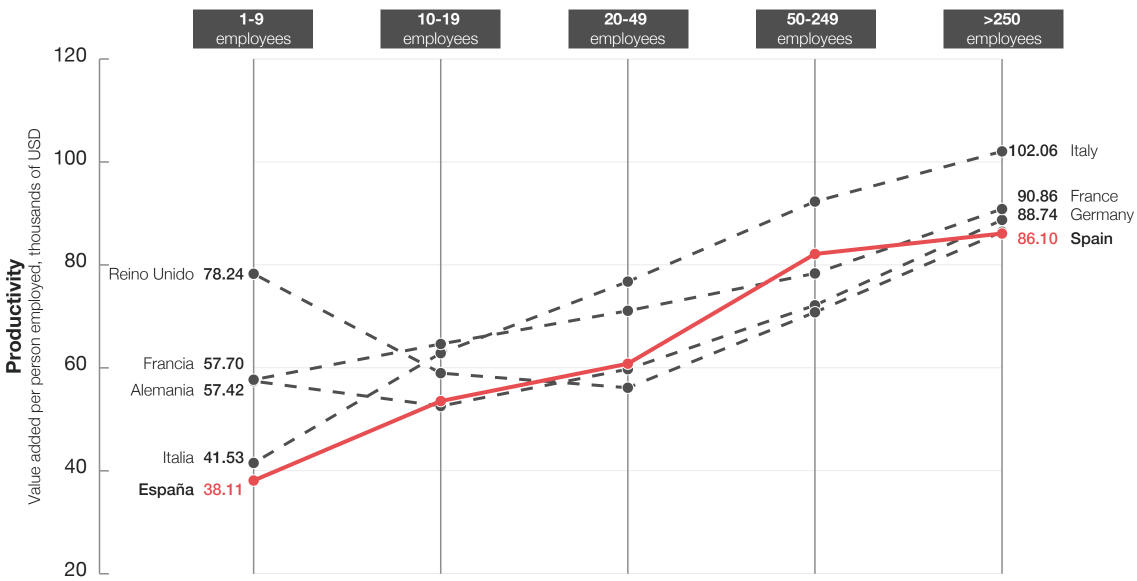
Thus, it can be pointed out that there are additional imitation and carry-over effects, linked to both the displaced personnel of the multinationals and to their environment.

3.4
HOW COMPANY SIZE AFFECTS THE PRODUCTIVITY OF FOREIGN CAPITAL COMPANIES

As seen above, a large average size is a distinguishing feature of the subsidiaries of foreign capital in Spain, a country in which small businesses predominate. Indeed, more than 95% of Spanish companies have less than 20 employees (an average of 6 employees per company), and, in this context, the subsidiaries of multinational companies in Spain are significantly larger (125 employees on average according to the INE, FILINT 2018) than that of the whole business fabric. Certainly, the degree of fragmentation of the Spanish business fabric is very important, with a large number of micro and small businesses. Being smaller is usually related to difficulties for internationalization, with less investment in R&D and also with lower productivity.

Although the classical view usually establishes that it is the size of the companies that determines their productivity[23], some authors put forward the opposite idea, that is, it is the less productive companies that have difficulties to compete and therefore to grow. From this perspective it could be inferred that, although there are external factors that can condition company size, other internal issues, such as the quality of the business resources, can be key to understanding the problems of scale of Spanish companies. In this context, foreign capital companies and subsidiaries of EMN operating from Spain are an exception, compared to the typical SME of the domestic business fabric.

FIGURE 16
PRODUCTIVITY BY COMPANY SIZE IN SELECTED COUNTRIES, BUSINESS ECONOMY, ADDED VALUE PER EMPLOYEE IN THOUSANDS



Source: OCDE. Value added per person employed, thousands of USD, current PPPs, 2016, or latest available year

The quality of business management of the average sized MNEs also affects other variables such as salaries, employment and, in short, the economic contribution of these companies, as described above.

THE PRODUCTIVITY OF FOREIGN SUBSIDIARIES IN SPAIN IS 11% HIGHER THAN THE AVERAGE PRODUCTIVITY OF THE SPANISH ECONOMY AS A WHOLE

In the case of productivity, understood in terms of added value per employee, the gap of Spanish companies in relation to the main European countries is precisely in the segment of the companies with less than 20 employees, i.e. the majority of the Spanish business fabric. However, the productivity of companies with more than 50 and 250 employees is in line with these countries. This fact is of unquestionable relevance for Spain, as it helps to attract larger companies, such as MNEs, and in relation to the performance of multinational companies in Spain, which due to their larger size, tend to be more productive.

The wage differences expressed by foreign capital subsidiaries have been analyzed above. However, salary metrics are not the only parameter that affects the performance of these companies. Thus, if the productivity of companies operating in Spanish territory is analyzed in terms of productivity per employee, according to the data provided by the INE, the productivity obtained in the multinational subsidiaries amounts to 71,337 euros per employee, while the average of the Spanish economy for the same year (2017) amounted to 64,292 euros per employee, 11% lower.

NOTES

15. Moris and Zeile (2016)
16. Narula (2014)
17. García, A.; Rama, R.; and Molero, J. (2019)
18. Dunning, J.H. (1988); Faeth, I. (2009)
19. Cuadros A.M, Navas, A., Paniagua J. (2019)
20. IMD World Talent Ranking (2018) con datos preparados en España por la CEOE
21. Global Innovation Index (2019)
22. GEM – Global Entrepreneurship Monitor (2018-2019)
23. Huerta, E. (2019)

04

MULTINATIONAL COMPANIES IN SPAIN: KEY ACTORS IN THE INTERNATIONALIZATION OF THE SPANISH ECONOMY

4.1
CONTRIBUTION OF MNES TO SPANISH EXPORTS

Foreign capital companies tend to be more technologically advanced, which gives them greater advantages when internationalizing their production. Therefore, the production of MNEs generally has greater export capacity, which is more or less effective according to the purchasing strategy in the world market and the position in the global value chain (GVC) of the subsidiary in a given country.

In Spain, the first wave of foreign investment linked to MNEs gave priority to gaining market share. This gave way to a gradual penetration of foreign investment in Spain that adapted to the vicissitudes of the economic and social history of our country. Over the last two decades, this investment has led to vertical integration, associated with greater intra-group trade, fundamentally of intermediate inputs, thus configuring a mixed model of complex integration, with implications for the foreign trade of goods and services.

ACCORDING TO OECD DATA FOR 2019, MNES REPRESENT APPROXIMATELY HALF OF INTERNATIONAL TRADE, ONE THIRD OF THE OUTPUT AND GDP AND A QUARTER OF EMPLOYMENT IN THE GLOBAL ECONOMY, AND FOR EVERY TWO JOBS IN THE COUNTRY OF ORIGIN, COMPANIES SUBSIDIARIES CREATE A JOB IN THE COUNTRY IN WHICH THEY SETTLE

As we already mentioned, the greater size and productivity of MNEs results in a technological superiority that drives their internationalization. In this way, the presence of subsidiaries of foreign companies is one of the factors behind the revealed competitiveness of some productive activities.

In Spain, before the crisis, foreign capital companies accounted for 25% of total exports, a percentage higher than their contribution in terms of added value and employment. These exports were mainly manufactures, with strong contributions from the transport equipment sector, as well as others like rubber and plastics, metalworking,, electrical and computer and electronic equipment industries, as well as computer services. During the crisis, on the other hand, the subsidiaries of foreign companies in Spain contributed to a lesser extent to exports, but they did help to slow the advance of imports, so that their behavior had a very positive impact on the Balance of payments[24].

MNEs in the industrial sector contribute more (57.3%) to foreign sales than subsidiaries in the services (30%)

CURRENTLY, THE SUBSIDIARIES OF MNES IN SPAIN ACCOUNT FOR 44% OF TOTAL EXPORTS

and retail (25.6%) sectors. It should be noted that, in the heading of transport material, 90.1% of MNEs production in Spain is dedicated to export. Other activities related to the trade of food and fuels (70%) or electrical and electronic equipment and equipment (67%) carried out by subsidiaries of foreign companies are also net exporters.

According to the information provided by the Spanish Institute for Foreign Trade ICEX based on data from the Department of Customs and Special Taxation of the National Tax Administration Agency AEAT[25] corresponding to 2018 there were 204,196 exporting companies in Spain, 38% more than in 2014. Of these only 51,768 were regular exporters[26], 13% more than in 2014.

The turnover of all exporting companies in 2018 amounted to 285 billion euros (18.4% more than in 2014), while regular exporters grossed 272 billion euros (21.7% more than in 2014). In other words, 18% of exporting companies, i.e. those that sell abroad on a recurring basis, are responsible for 95.3% of total export turnover.

If we extrapolate these data to the percentage represented by MNEs subsidiaries over the total exports, which is close to 44%, it can be said that, in 2018, the sales abroad of foreign capital companies established in Spain amounted to around 114 billion euros.

According to another source of the Secretary of State for Commerce[27], there are 6,800 Spanish exporting companies controlled by foreign capital, representing 13% of the total of regular exporters. However, these are responsible for 40.2% of exports, an approximate figure, in any case, to the calculation made above. In any case, this analysis shows a growing interrelation between exports, imports, foreign investments, talent acquisition, and other internationalization activities, the analysis of which must be approached from a global perspective.

4.2 THE INSERTION IN GLOBAL VALUE CHAINS, THE HALLMARK OF MNEs

The subsidiaries of multinational companies also generate significant indirect effects, which will depend on how strongly integrated they are in the national economies in which they are based. According to OECD data, on average, worldwide, each dollar of additional sales of foreign subsidiaries generates another 0.62 for the national economies in which they are located.

Proof of this interrelation is the role that multinational companies play in the configuration of global value chains (GVCs), although their growth has slowed since the beginning of the global financial crisis. Indeed, between 2000 and 2007, GVCs, especially the most complex ones, grew faster than other components of GDP. Since then, their increase has not been linear, and their development has stagnated somewhat. However, in 2017, according to data from UNCTAD (2019), there was a growth in GVCs that was again higher than GDP, a trend which will have to be seen if it consolidates in the future.

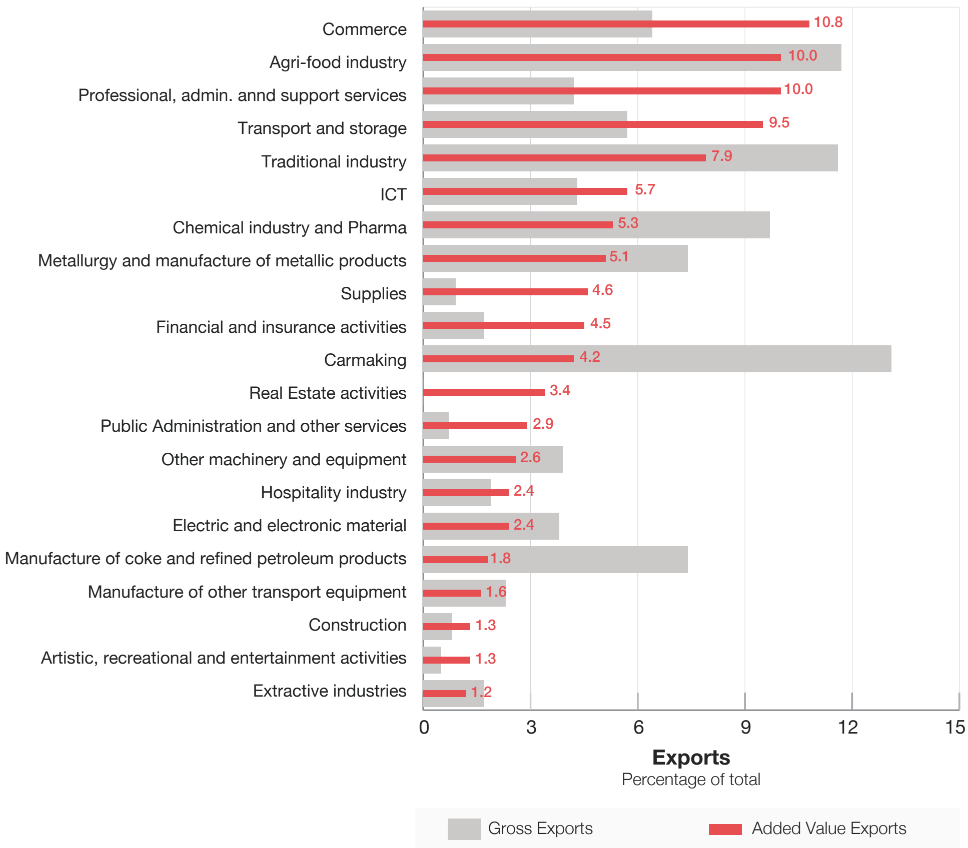
The relationships of GVCs are especially important in high-tech sectors, where complex value chains can involve many countries and multinational companies.

In the case of Spain, the growth of foreign trade in recent years has been accompanied by a shift in the weight of manufactures, which absorb 37% of gross exports, in favor of service exports, which represent 50.6% of the total, although it is true that this change has taken place at a time when many of these services are linked to industrial production.

According to a recent report[28], the services that provide the most exported added value are retail (10.8%), business services (10.0%), and transport and storage (9.5%).

FIGURE 17

GROSS AND VALUE ADDED EXPORTS IN SPAIN, WEIGHT OF THE DIFFERENT SECTORS IN SPAIN (2014)



Source: IVIE (2019)

THE SUBSIDIARIES OF FOREIGN MULTINATIONALS ARE INCREASINGLY HIRING AND COOPERATING WITH NATIONAL SUPPLIERS, INCLUDING SMEs. IN ADDITION, THE RESULTS DEMONSTRATE THE IMPORTANCE OF FOREIGN SUBSIDIARIES IN NATIONAL VALUE CHAINS, NOT ONLY AS CUSTOMERS OF LOCALLY PRODUCED, MARKETABLE AND NON-MARKETABLE INPUTS, BUT ALSO AS SUPPLIERS OF FINAL AND INTERMEDIATE PRODUCTS SOLD AND USED WITHIN THE NATIONAL ECONOMY

Unlike services, manufacturing sectors have lost weight with respect to the added value generated by their exports. The most relevant falls have occurred in the key industries for the importation of intermediate goods and services. Particularly noteworthy is the carmaking industry, which represents up to 13.1% of gross exports, but only 4.2% of value-added exports.

As the following graph prepared by the Valencian Institute of Economic Research IVIE indicates, the chemical, traditional and petroleum refining industries are also in decline since as their weight in gross exports increases, the value added of exports decreases.

As is well known and is pointed out in this same report, routine production activities generate less value. Consequently, countries fare much better the more tasks they bring together in the first and last phases of the production process. It is what experts call the smiling curve. There is more value in the pre-production and post-production phases of the chain, that is, conception, research, design, marketing and services.

In Spain, 30.9% of the value of Spanish exports is generated in other economies, ten points more than in 1995.

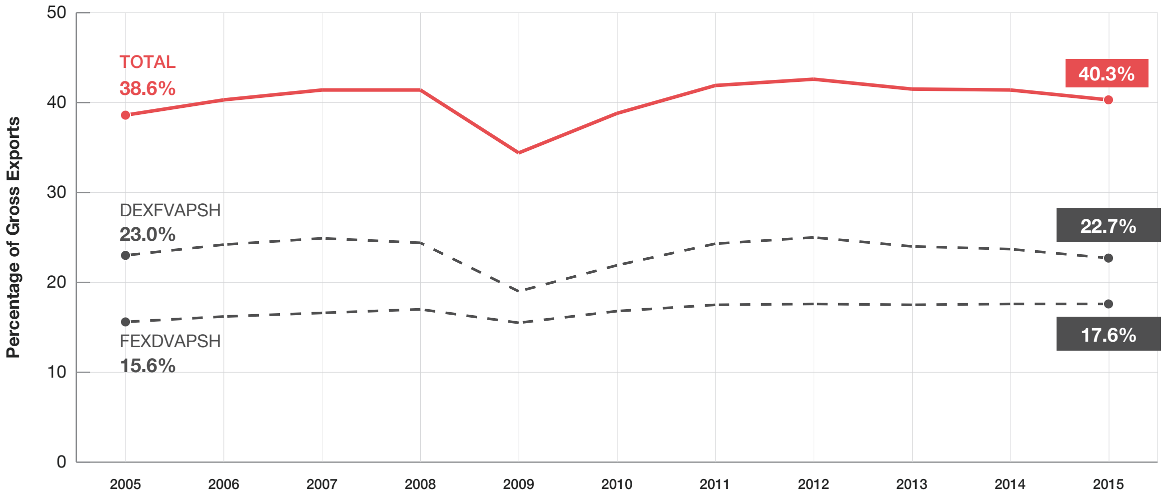
Consequently, the percentage of value that is maintained in Spain, that is, in the form of wages and benefits, is close to 70%, a level below that of the main European countries.

Another way to assess Spain's performance in these global value chains is through the participation indicator offered by the OECD in its Trade in Value Added (TIVA) database[29].

Launched in 2013, it is the first database that compiles information on international trade in goods and services in terms of added value for a large number of countries, the majority belonging to the OECD. Data is not updated very frequently, but with its indicators one can analyze the degree to which the imports of a given country are contained within the exports of other countries and monitor global production networks and supply chains, thus helping to establish the degree of integration of an economy in GVCs.

FIGURE 18

DOMESTIC ADDED VALUE CONTAINED IN FOREIGN EXPORTS AND FOREIGN ADDED VALUE CONTAINED IN NATIONAL EXPORTS



Source: OECD, Dataset: Trade in Value Added (TiVA), 2018
FEXDVAPSH: Forward participation in GVCs: Domestic value added in foreign exports as a share of gross exports, by foreign exporting country
DEXFVAPSH: Backward participation in GVCs: Foreign value added share of gross exports, by value added origin country

According to its latest data (published in December 2018 and corresponding to 2015 and 2016), 21.6% of the added value of Spanish gross exports corresponded to foreign factor inputs, which gives us an idea of the carry over effect that Spanish exports have on imports. In absolute values, it corresponds to 119 billion dollars that year, after a compound annual growth rate of 10.2% since 1995, the highest value to date. The same metric in 2011 amounted to 26.88%[30].

If on the other hand we analyze the Spanish domestic added value incorporated in exports from other countries, this amounted to 17.6% of gross exports (17.5% in 2011), which gives a measure of the carry-over effect forward that exports from the rest of the world have over national input production.

This reduction in domestic and foreign added values registered in Spain is common in almost all economies. Indeed, in the majority of developed and developing countries the proportion of domestic added value in exports has tended to decrease over time, a fact that reflects the expansion of global value chains. Even the countries best known for their final products in key sectors such as cars, machinery and electronics rely heavily on imported inputs, both manufactures and services.

Foreign subsidiaries are thus important gateways to international markets and connect national value chains with global value chains.

Although it is the multinational companies and not countries themselves that, to a greater extent, determine these GVCs, it is the economies of those countries that play an essential role in facilitating and capturing part of their value. The GVCs depend largely on the skills and competitiveness of the local workforce, and on the functions that it performs, providing, as noted above, more value in the tasks at the beginning or end of the value chain. Only in this way can investment and local improvement in innovation and knowledge-based capital development be maximized and encouraged.

FOREIGN INVESTMENT IS VERY SENSITIVE TO BUREAUCRATIC AND POLITICAL BARRIERS, AND THE CAPTURE OF VALUE THROUGH TECHNOLOGICAL DISSEMINATION, THE GENERATION OF NEW SKILLS IN THE TERRITORY AS WELL AS THE IMPROVEMENT OF EXISTING ONES, REQUIRE A SIGNIFICANT LOCAL INVESTMENT THAT CAN ABSORB AND BENEFIT FROM THIS GENERATED VALUE

NOTES

24. According to data from the Central Balance sheet of the Bank of Spain in the analysis "Foreign capital in the Spanish foreign sector" in R. Myro, Competitive Strengths and Key Sectors in Spanish Exports, IEE, 2013.
25. Information refers to goods only
26. Companies that have exported for the last four consecutive years.
27. Spanish Commercial Information Bulletin No. 3113 (2019), "The characteristics of the Spanish exporting company".
28. IVIE and Fundación BBVA (2019): "La competitividad española en las cadenas de valor globales".
29. OECD – Trade in Value Added http://stats.oecd.org/Index.aspx?DataSetCode=TIVA2018_C1
30. IVIE (2019).

05

THE ACTIVITY OF THE COMPANIES OF THE ASSOCIATION MULTINACIONALES POR MARCA ESPAÑA IN THE SPANISH TERRITORY: AN EXAMPLE OF INTEGRATION

5.1 HOW INVESTMENT IS SPREAD OUT AMONG THE SPANISH REGIONS

The territorial diversity of Spain constitutes, together with the size of the market and the quality of its infrastructure and human resources, a powerful attractive factor for the investment of foreign capital companies. The investment decisions of the last years are distributed over the whole of the Spanish territory, generating employment and wealth in all the Spanish regions.

As in all European countries, large metropolitan areas attract most investment flows and investment projects and the presence of foreign companies in these areas often favors the arrival of new investors. Regarding European competition to lure foreign investment, the economic dynamism of regions and large cities is an often decisive factor.

In terms of investment flows, the Community of Madrid has traditionally been the main receiving region of productive investments in Spain, with the exception of 2010. There is a strong 'headquarters effect' from which Madrid benefits especially, both in the way investment is allocated to the headquarters or central offices and by the power of attraction of the large investments that the headquarters of the great Spanish companies exert. Thus, the Madrid region concentrates a significant part of that investment stock (68.1% last year).

The employment associated with such investment stock is also quite important. In the last year for which data is available, Madrid concentrated 405,735 direct jobs linked to foreign investments, 29.1% of the total in Spain. The headquarters effect 'is evident when interpreting this data in relation to the weight of Madrid in the stock of investment.

In any case, the processes of agglomeration of economic activities and investment projects is not unique to Spain. The level of wealth per inhabitant is usually an important determinant for foreign investors when choosing a location, as well as market size, so that there is a significant correlation between investments in each region with their GDP. The correlation between the creation of employment linked to foreign investment and regional GDP is somewhat less[31].

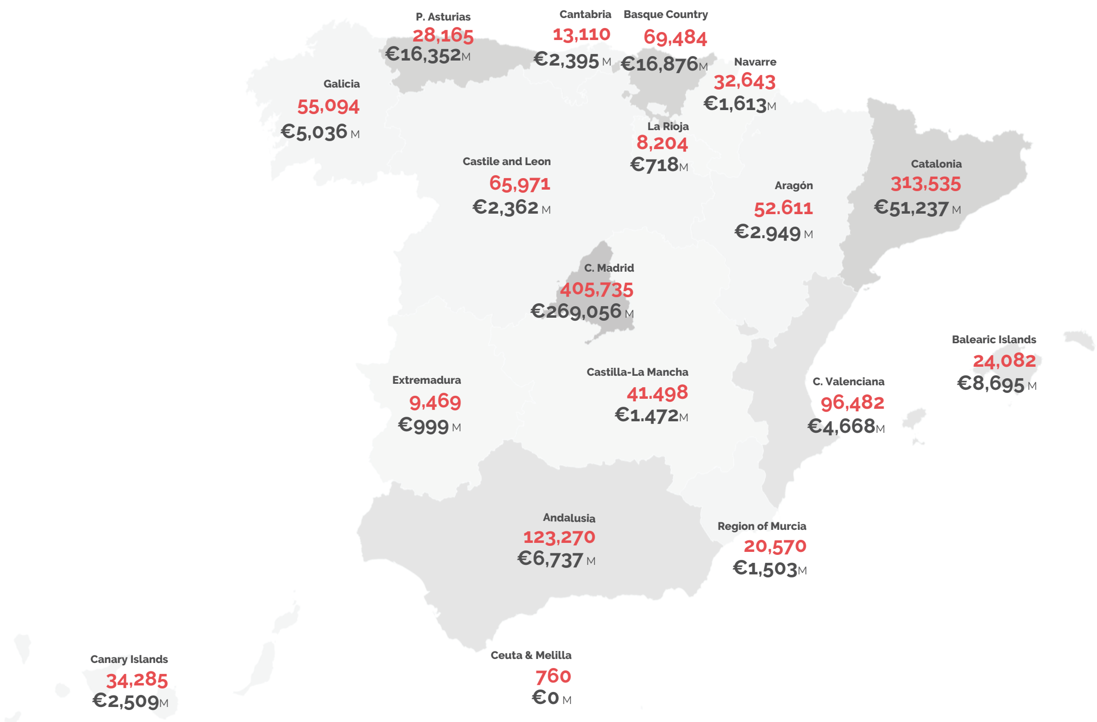
Indeed, in the United Kingdom, London, which contributes about 25% of British GDP, received in 2017 38% of all investment projects. And in France, the four cities with more than 1 million inhabitants, including Paris, host 37.4% of the projects, although the Île de France region, where the capital is located, absorbs only 23% of jobs created by foreign investments.

In any case, the economic attractiveness of the Community of Madrid and the main metropolitan areas is not detrimental to other Spanish regions. The figures of property, plant and equipment linked to foreign investment, which represents almost 29% of the total investment stock, indicate that Catalonia accumulates 25.6 billion euros, ahead of the Community of Madrid, with 19.4 billion, or Andalusia, with 16.1 billion. This suggests a distribution of the assets related to the activity of the investment companies that varies from that of the total computation of the investment stock. Intangible and financial assets linked to the investments of the foreign companies in Spain are also represented in these figures.

Below is a map of the regional distribution of the corresponding investment stock and associated employment according to the latest Investment Registry data.

FIGURE 19

REGIONAL DISTRIBUTION OF INVESTMENT STOCK (GREY, MILLIONS OF EUROS) AND EMPLOYMENT (RED)



Source: Registro de Inversiones, 2019

Apart from the considerations of the 'headquarters effect'[32], 89% of the foreign investment stock is concentrated in four regions, Madrid, Catalonia, the Basque Country and the Principality of Asturias. On the other hand, 67% of the employment generated by foreign investment is concentrated in Madrid, Catalonia, Andalusia and the Community of Valencia.

The territorial analysis of aggregate investment flows can be complemented with the statistics of Subsidiaries of Foreign Companies in Spain provided by the National

Institute of Statistics INE, which provides an analysis of their activity in Spanish territory. Thus, the contribution of MNEs to the creation of value and employment in our country can be calculated.

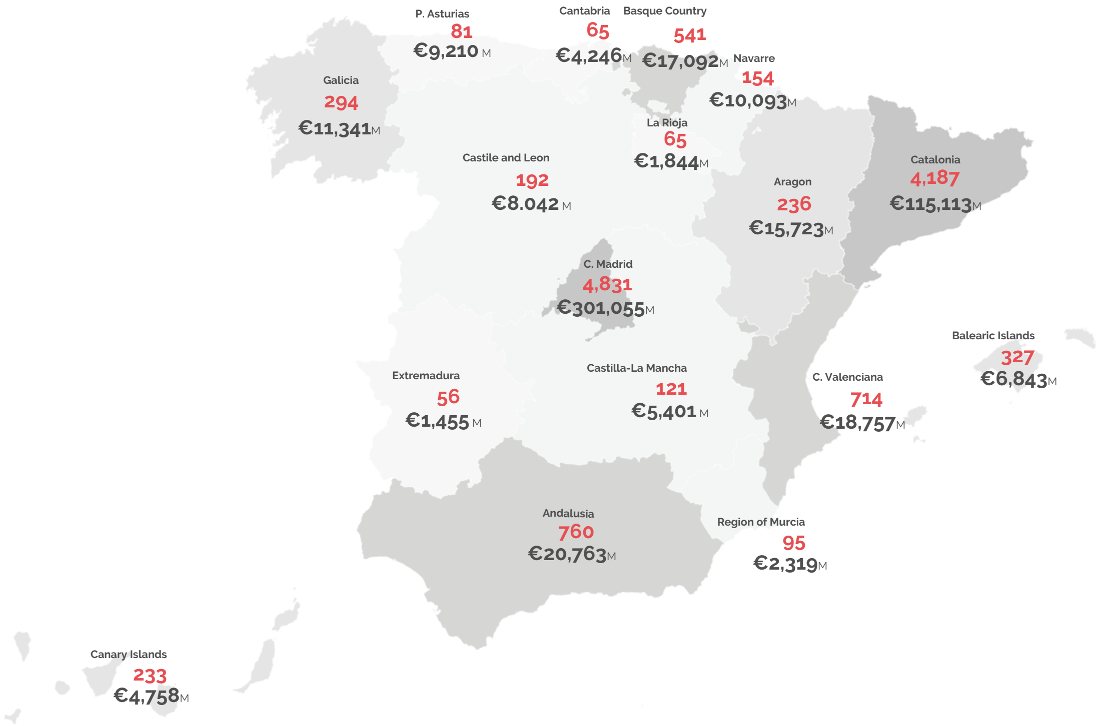
5.2 THE PRESENCE OF MULTINATIONAL SUBSIDIARIES IN SPANISH TERRITORY

Multinational companies with foreign capital are present in the whole of Spain and contribute to the economic growth of the regions in which they are established.

According to the INE[33], the number of subsidiaries under the control of foreign multinational companies in 2017 reached 12,953 throughout Spain, 84.2% more than those existing in 2008. It is worth noting that all Spanish regions, without exception, have seen the presence of foreign capital subsidiaries increase in their territory, a fact that accounts for their penetration in the form of a territorial network throughout the Spanish geography.

FIGURE 20

REGIONAL DISTRIBUTION OF FOREIGN SUBSIDIARIES (RED) AND THEIR TURNOVER (GREY, MILLIONS OF EUROS) IN SPAIN



Source: National Statistics Institute, INE, 2019

Consequently, the number of employees, value of production and turnover, as well as the cash added value of the MNEs have increased in the last decade (2008-2017) in all Spanish Autonomous Communities. Only the gross investment in material assets, which in Spain as a whole increased 3.6% throughout the Spanish territory has left negative growth figures in the Cantabrian coast (Galicia, Asturias, Cantabria, Basque Country) and Castilla la Mancha in contrast to the positive growth of Andalusia, the Canary Islands, Murcia and Navarre.

5.3 DETAILED ANALYSIS OF THE TERRITORIAL FOOTPRINT OF MNEs IN SPAIN

This section intends to go beyond the data provided by the INE and carry out a more detailed analysis of the subsidiaries of the multinationals belonging to the association, with the aim of offering a realistic study of the multinational foreign capital companies in Spain.

For this, a survey has been prepared among the members of the Association *Multinacionales por Marca España* which tries to deepen in matters related to the presence of the companies in Spanish territory, their establishments in the different regions, the generated employment as well as their relation with the local business fabric and the determining factors when choosing a location for their establishments.

In general terms, the results obtained support the thesis of the contribution of businesses to regional economic growth, which is evidenced in the territorial penetration of their different facilities and forms of establishment throughout Spain.

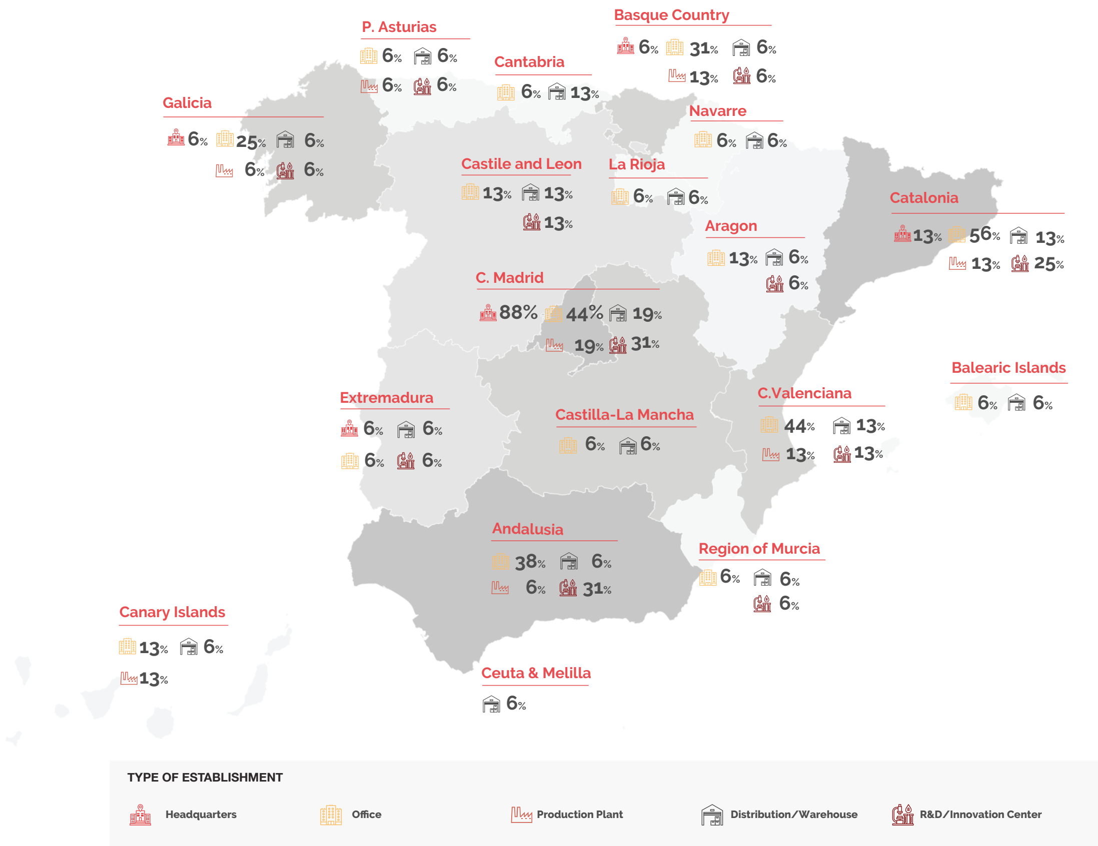
32% of the total number of member companies responded to the survey, among which there are companies from the sectors of life sciences, health and agriculture, beverages, information and communication technologies, professional services, finance, large distribution, human resources services, publicity and public relations. The results are described below.

First, it is worth noting the long commitment of the companies associated to *Multinacionales por Marca España* with our country. Since the end of the 19th century, with the first wave of the associated companies settling in Catalonia in 1899, foreign capital companies have bet on and invested in Spain, and more examples can be found in almost every decade of the last century. At present, and after the incorporation of Spain into the EU, the proliferation of foreign capital companies, mainly in the services sector, was greater, a trend which continues in the current decade.

Secondly, we must highlight the fact that all the companies surveyed began their activity either in Madrid (61%) or Catalonia (32%), or in both territories simultaneously (7%), from where they have spread throughout the Spanish geography with the implantation of offices, centers of production, development, or distribution. The dynamics of territorial expansion follow the logic linked to the specific location determinants of each company. Thus, consumer goods companies and distribution companies have logically established a network of establishments in Spain in line with the size of each regional market in terms of population and / or business ones. Service companies such as consulting and human resources also follow a similar logic, although in this case their presence is fundamentally based on the entrepreneurial dynamism of each territory.

FIGURE 21

CURRENT NUMBER AND TYPE OF ESTABLISHMENT BY REGION



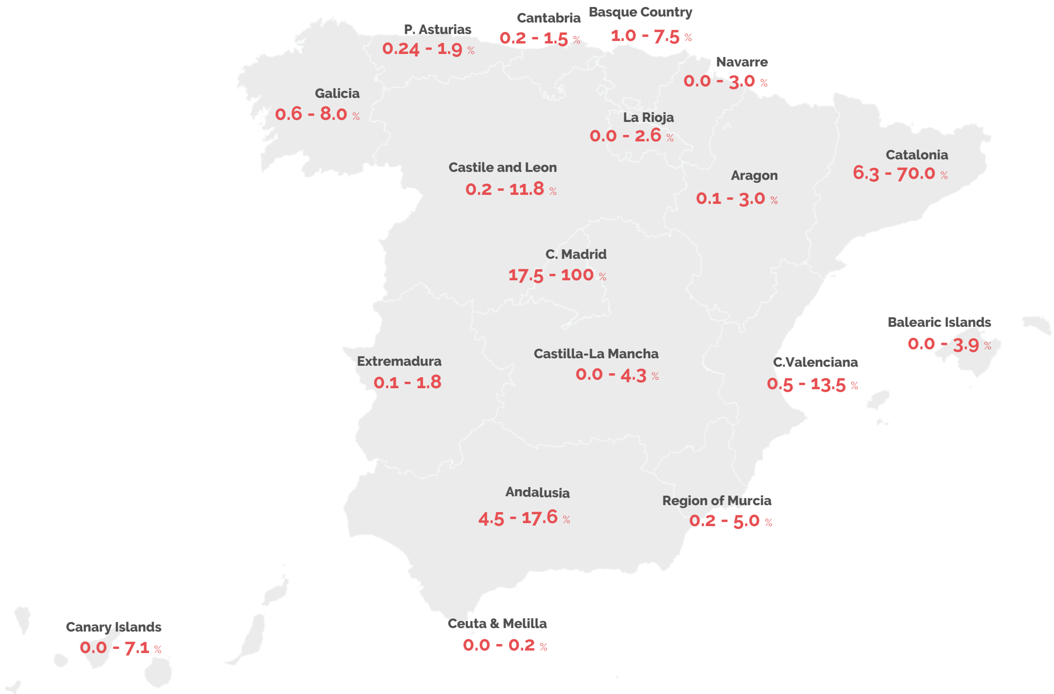
Source: compiled by the authors based on the responses received from Foreign Multinationals for the Spain Brand, 2019
Note: The figures represent the percentage of companies of Multinacionales por Marca España that have an establishment of each type in every Autonomous Community

The presence of development and R&D centers of the companies surveyed is also worth noting, with 28 centers of these characteristics distributed among 11 different Autonomous Communities. The 10 production plants of companies with industrial activity are distributed among the 7 different regions with greater relevance in this sector in the productive fabric. Finally, the headquarters of the companies surveyed are mostly concentrated in Madrid (64%), in line with foreign investment data and the headquarters effect mentioned above.

The employment footprint associated with this presence of establishments of different types in the Spanish geography differs according to each company and their sector of activity. Only from the surveys obtained, the associated companies show direct employment close to 115,000 people throughout Spain, with a significant presence in the regions.

The proportion of employment that each company has in the Spanish regions varies depending on their type of activity, but, in all of them, the members of the Foreign Multinationals for the Spain Brand have generated employment to a greater or lesser extent, thus contributing to the generation of wealth in the regions. The following table expresses the minimum and maximum percentage of total employment generated by respondents in each autonomous community. The territorial distribution of the number of employees of most companies in Spain in percentage values ranges between the two extremes of the interval.

FIGURE 22
EMPLOYMENT BY AUTONOMOUS COMMUNITY, MIN./MAX. INTERVAL, PERCENTAGE OF TOTAL IN SPAIN



Source: compiled by the authors based on the responses received by the association Multinacionales por Marca España, 2019

Regarding the turnover of the multinationals that answered the survey, the dispersion is large, although the statistical mode of the companies' global turnover data is slightly above 20 billion euros. Some of the companies also provide data on their turnover for the Spanish market. Their activity in Spain as a share of their global turnover ranges between 1.25% and 23%.

The survey also refers to the destination of the production of subsidiaries of multinational companies, as well their relationship with the value chain in Spain. Well, for the most part, the associated companies state that 100% of their production is

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THE EFFECT DERIVED FROM THE EXTERNALITIES OF THEIR ACTIVITY ON THE SPANISH ECONOMY AS A WHOLE AND AT THE REGIONAL LEVEL IS VERY SIGNIFICANT, AND MOST TEND TO INTEGRATE WITH THE LOCAL BUSINESS FABRIC WHEN THEY NEED IT

destined for the Spanish market, though some production is also destined for Portugal. Only in some cases a significant percentage of production (around 40%) is destined for exports. This is the result, undoubtedly, of the influence exerted by a majority of subsidiaries of multinational service companies that operate solely in our country.

For this same reason, the value chain of multinational companies in the case of Spain presents, in relation to purchases (backward value chains), a majority of local companies (an average close to 78%) as suppliers, followed by group companies (16%) and, as a minority, other companies outside Spain (6%). On the sales side (forward value chains), the export of intermediate inputs of Spanish manufacture for incorporation into the production lines of companies outside Spain, mainly of an industrial nature, is also low. Around 75% of the inputs are destined to local companies, 15% to group companies and 10% to other companies outside Spain.

With the existing data it is not possible to estimate the magnitude of the carry-over effect on the local business fabric exerted by multinational companies in terms of the generation of business and employment, but, without a doubt, it is one of the defining characteristics of multinationals.

Finally, the survey echoed the role played by different factors when choosing a location in the Spanish territory and regions.

The responses received indicate that size and dynamism of the market is the main factor to be taken into account in location decisions. Indeed, 50% of respondents place this factor first.

Next, the multinational foreign capital companies surveyed declared the availability of adequate talent and human resources as the second most relevant factor. 50% of the respondents think that this factor is a priority among the variables that must be taken into account in their investment decision process.

Costs are also an essential factor in decision making; 28% of respondents reveal this factor as a priority, and the same percentage of companies places it in third place.

The provision of infrastructure, both physical and digital, appears just as frequently

(30%) as the second or third determining factor when selecting a territory for to carry out the firm's activities.

The companies surveyed also point out the importance of the favorable business environment in Spain and the territories in which they are located as a very relevant factor; 22% of companies indicate this as the main determinant, and 33% rate it in second place.

Access to specific local resources and the capacity for innovation in the territory are also factors that affect the decision-making processes of multinational companies. The priority given to them, however, is unevenly distributed among respondents according to the activity they carry out in the Spanish territory.

This prioritization of factors is only indicative, in any case, of the complexity of factors that influence business location decisions, which, in any case, differ from company to company.

NOTES

31. According to the analysis carried out by Business France (2018): "Rapport 2018, Investissements Internationaux en France"
32. The basic headquarters effect accounts for the relationship between the share of investments that corresponds to each region of the stock of FDI and property, plant and equipment. Values above one indicate a favorable headquarter effect. According to this index, only three Spanish regions have a figure over one, Madrid (3.98), is clearly the region with the greatest effect, followed by the Principality of Asturias (1.26) and the Basque Country (1.03).
33. INE (2019): "Statistics of Foreign Affiliates in Spain"

06

CORPORATE SOCIAL RESPONSIBILITY OF MULTINATIONAL COMPANIES IN SPAIN

6.1 MULTINATIONAL COMPANIES, PIONEERS IN THE DEVELOPMENT OF BUSINESS ETHICS

Multinational companies, in their role as social agents, are crucial in the development of the society in which they operate. In fact, the most advanced economies that offer higher levels of well-being to their citizens are those that have a more dynamic and international business sector and have more sustainable management models.

At the same time, multinational companies' ability to grow, create jobs and generate wealth depends on the quality of their management models, the participation of stakeholders and the distinctive capabilities they are able to develop, which can end up becoming competitive advantages. Advantages that are determined by their reputation and ability to build a relationship structure that stimulates the trust of employees, customers, shareholders, investors, suppliers, and ultimately, the social ecosystems in which they are immersed.

CSR IN MULTINATIONAL COMPANIES TRIES TO DEVELOP RESPONSIBLE MANAGEMENT MODELS THAT TAKE INTO ACCOUNT BOTH THE COMPETITIVENESS AND THE GROWTH OF BUSINESSES AND THE ECONOMY AS A WHOLE, AS WELL AS THE DEVELOPMENT OF PEOPLE AND THE OBJECTIVES OF SUSTAINABLE DEVELOPMENT IN THE GLOBAL CONTEXT

Multinational companies have a long history in the development and integration of the social responsibility policies (CSR) in their strategies, a commitment that generates a more innovative corporate culture that is more attractive internationally, and has more resources to anticipate and adapt to the challenges of a global and changing market.

CSR is understood here as a vehicle for competitiveness, sustainability and social cohesion and, therefore, as a way to understand business as something that not only takes into account the bottom line, but also the way in which profits are obtained. Thus applied, social responsibility in companies is materialized in the generation of shared value and in long-term confidence through the integration and management of risks and opportunities derived from economic, social and environmental development.

6.2
SOCIAL RESPONSIBILITY AND FOREIGN INVESTMENT. THE IMPORTANCE OF RANKINGS

In the field of Foreign Investment, the attractiveness of an economy depends on many factors. Its competitiveness and external perception also depends on factors such as legal certainty, ethical behavior, good corporate governance practices, the promotion of equal opportunities and non-discrimination, transparency, commitment to employee development, responsible behavior in the supply chain, respect and protection of Human Rights, respect for the environment and social dialogue, among others.

Good proof of this is that international competitiveness rankings, such as the Global Competitiveness Report of the World Economic Forum, emphasize the institutional quality of countries, which is an indicator of the attractiveness that a given country has for investors. Some of the indicators contemplated in these rankings, like innovation capacity, business culture and interaction and diversity, have to do with elements of business management traditionally contemplated within the framework of social responsibility.

The table below shows the relationship between the issues that are part of some of the main initiatives in the field of social responsibility and the elements evaluated for the construction of the Global Competitiveness Report.

TABLE 4

MATCHING AREAS BETWEEN COMPETITIVENESS INDICATORS AND PRIORITY INITIATIVES OF THE RENEWED EU CSR STRATEGY

Initiative	Area of Influence	Coinciding areas with WEF's GCI indicators
UN Global Compact	Labour Rights Human Rights Environment Incidence of Corruption	1.05 Irregular Payments and Bribes 1.18 Ethical Behaviour of Businesses 7.01 Cooperation in Labour-Employer Relations 7.08 Presence of Women in Business
OECD Guidelines for Multinational Enterprises	Human Rights, Employment and Labour Relations Environment, Corruption Consumer issues Science and Technology Competition	1.05 Irregular Payments and Bribes 1.18 Ethical Behaviour of Businesses 5.08 Extent of Staff Training 6.15 Customer Focus 7.01 Cooperation in Labour-Employer Relations 7.08 Presence of Women in Business 12.03 Business Investment in R&D
ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy	Human Rights Labour Rights	5.08 Extent of Staff Training
ISO 26000	Human Rights Environment Work Practices Consumer Issues Competition Social Responsibility	1.05 Irregular Payments and Bribes 1.18 Comportamiento ético de las compañías 1.20 Functioning of the Boards of Directors 5.08 Extent of Staff Training 6.15 Customer Focus 7.01 Cooperation in Labour-Employer Relations 7.08 Presence of Women in Business 12.03 Business Investment in R&D
UN Guiding Principles on Business and Human Rights	Human Rights	1.05 Irregular Payments and Bribes 1.18 Ethical Behaviour of Businesses 7.01 Cooperation in Labour-Employer Relations

Source: Spanish Strategy for CSR (EERSE), and Ministry of Employment and Social Security

Other international sustainability indices, such as the Dow Jones Sustainability Index, measure competitiveness and attractiveness for investment, based on the key criteria and principles of corporate social responsibility. Social impact rating agencies, such as Clarity, also offer technological solutions so that investors can optimize the social and environmental impact of their investment portfolios. All of them focus on the economic, environmental and social factors relevant to the success of companies.

The increase in sustainable business practices is accompanied by the need to make visible and communicate the results of these actions. Thus, the most committed multinational companies want their efforts to be evaluated and therefore develop systems for assessing and measuring social impacts.

Indeed, according to a recent report by A.T. Kearney (2019), 97% of investors say that their companies return to the communities in which they operate part of the benefits obtained in various ways, including the implementation of worker training programs, support for local initiatives or charities, hiring economically disadvantaged groups and other similar actions. According to the survey of the aforementioned consultant, the most popular return methods are to invest in local infrastructure, participate in environmentally sustainable practices and to hire local companies.

THE EXECUTIVES OF THE LARGE MULTINATIONAL INVESTMENT COMPANIES SEEM TO BE WELL AWARE THAT THE SUCCESS OF A BUSINESS TODAY REQUIRES IMPROVING THEIR SOCIAL FOOTPRINT, HELPING TO SHAPE THE POLICY ENVIRONMENT IN THE TERRITORIES WHERE THEY WORK. FDI OFFERS COMPANIES A MEANS TO ACHIEVE THESE OBJECTIVES AND, THEREFORE, IS LIKELY TO REMAIN AN IMPORTANT COMPONENT OF BUSINESS STRATEGY IN THE COMING YEARS

6.3 CHANGE IN THE INSTITUTIONAL PERSPECTIVE OF CSR

The recommendations of multilateral institutions and organizations on CSR policies have been reflected in multiple documents, principles and strategies[34] that have served as a guide both for the design of business action strategies and for government policy.

The European CSR strategy, institutionalized in Spain in the Spanish Corporate Social Responsibility Strategy[35] introduced a new definition of corporate social responsibility, which evaluates the responsibility of companies according to their impacts on society.

The strategy also points out why companies should take into account the expectations of interest groups in their strategy and operations in order to maximize their ability to create value for society as a whole.

The definition clarifies that compliance with applicable legislation and collective agreements reached by social agents is a prerequisite for corporate social responsibility. It also points out that to fully assume their responsibility, companies must integrate social, environmental and ethical concerns, respect for human rights and consumer concerns in their operations

All this with the following objectives:

- Maximizing the creation of shared value for its owners / shareholders and for other interested parties, including society in a broad sense.
- Identifying, preventing and mitigating possible complications.

"A STRATEGIC APPROACH TO CSR IS INCREASINGLY IMPORTANT FOR BUSINESS COMPETITIVENESS. THIS CAN BRING BENEFITS IN TERMS OF RISK MANAGEMENT, COST SAVINGS, ACCESS TO CAPITAL, CUSTOMER RELATIONS, HUMAN RESOURCES MANAGEMENT AND INNOVATION CAPACITY"

Renewed Strategy of the European Union on Corporate Social Responsibility

6.4 THE IMPORTANCE OF REPUTATION IN THE EVOLUTION OF THE CSR CONCEPT

Initially, the CSR concept had a fundamentally environmentally based approach (carbon footprint, recycling) that has grown to include people, in areas like philanthropy, donations to the community and volunteering.

The incorporation of social responsibility in the fields of business self-regulation, the balance between business and social issues and as a promoter of ethical behavior has changed the traditional concept of CSR, understood nowadays as an economic multiplier and business generator.

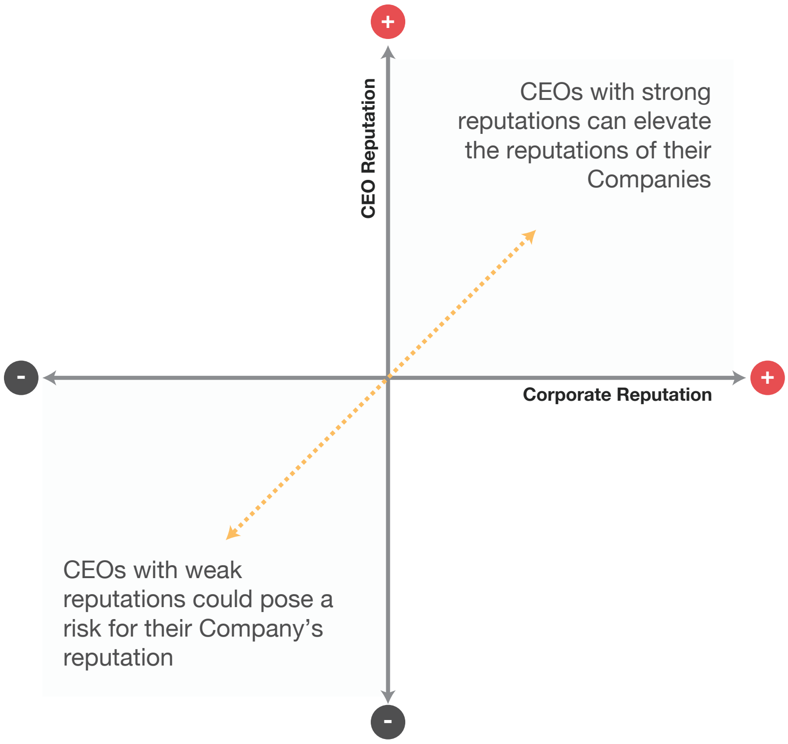
Thus, at present, the concept of CSR has grown, and now integrates other areas that imply a fiscal, social, environmental responsibility, as well as an employer responsibility. Consequently, CSR produces results based on measurable social and business impacts.

Some reports[36] emphasize the current CSR trends, analyzing some of the elements that directly affect the company's reputation. The following are mentioned:

- The need to buttress the connection between trust and corporate responsibility.
- Corporate responsibility increases the emotional connection of workers, customers, consumers and society in general with the company.
- The importance of communicating the CSR objectives.
- The room for the development of actions and attributes in the field of CSR and the need for companies to be open to working on improvements, especially when it comes to transparency.
- The role of CEOs and business leaders responsible for creating the CSR image. In this sense, the close relationship between the reputation of the CEO of the company, who is increasingly evaluated based on his/her ethics and not on company profits, with the level of reputation of the company is significant.

FIGURE 23

RELATIONSHIP BETWEEN THE CEO AND COMPANY REPUTATION



Source: Reputation Institute (2019)

In order to achieve this improvement in competitiveness and reputation abroad, other factors are also influential, like legal certainty, ethical behavior, good corporate governance practices, the promotion of equal opportunities and non-discrimination, transparency, investment in R&D&I, the commitment to the development of employees, responsible behavior in the supply chain, respect and protection of Human Rights, respect for the environment and social dialogue, among others.

All of them are practices that companies can adopt voluntarily, beyond the applicable legislation, and that are part of the objectives pursued by organizations that are considered responsible and sustainable.

The fact that social responsibility cannot be a mere marketing instrument of large corporations is emphasized, and that the only way to develop it is through its integration into the company's global strategy and its implementation in everyday operations.

6.5 CURRENT TRENDS IN THE FIELD OF CSR FOR MULTINATIONAL COMPANIES

If 2018 was a very active year in the implementation of sustainability practices and measures to address the challenges posed by globalization and its impact on social issues, governments and corporate leaders of the most reputable companies are now considering new collaboration and advice initiatives, as well as training in good practices in CSR issues, especially in areas related to governance and accountability.
Thus, for example, there are trends that suggest that, in addition to diversity and inclusion, the focus is being placed on ensuring fair treatment, both for employees and customers.

In this context, the use of artificial intelligence tools that can without a doubt can also be used to achieve these objectives can not let us forget in any case that personalization in processes such as, for example, the recruitment of employees, is essential to ensure that diversity and inclusion and fair treatment are present in the relationship with the incumbents.

Also in relation to employees, and as part of this change, companies are moving from diversity and inclusion, which can arise as a corporate discourse, towards the idea of belonging, which tries to typecast less and promote a change of culture to create an environment where everyone can prosper and feel committed.

Another of the most recent trends in CSR in large multinational companies has to do with new entrants, like the consumers and workers of the so-called ‘Generation Z’, those born after the second half of the 90s, and that will represent 40% of global consumers in 2020. These are digital natives who demand:

- Greater, better and easier use of technology
- More flexibility in the workplace
- More options to choose from

- More acceptance and transparency in the workplace and in market access
- A commitment from companies to poverty and hunger reduction, human rights, the environment or climate change

But perhaps one of the most interesting trends in the field of CSR is the focus placed by large companies on the values of employees, customers and also, increasingly, investors.

In addition, the growing relevance of data engineering means that results in ESG activities increasingly affect the financial results of companies.

As the UNCTAD report (2019) points out, capital market policies and instruments designed to promote the integration of sustainability in business and investment practices are going from being a niche to being a significant trend. A growing number of investors are integrating ESG factors in their investment decisions to improve performance and mitigate risk. The positive track record of sustainability-related products is the catching the attention of asset managers and securities regulators, indicating that such factors are important for the performance of long-term investments. As these sustainable investment trends take root and expand, they can have a stronger influence on the policies and operational practices of MNEs.

THE GROWING INTEREST OF INVESTORS IN ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS (ESG) IS GENERATING A GROWING FLOW OF SOCIALLY RESPONSIBLE INVESTORS. COMPANIES THAT INVEST IN IMPROVING THEIR ENVIRONMENTAL SOCIAL IMPACT WILL LEAD THE INVESTMENT RANKINGS, AND, IN TURN, WILL ENHANCE THE VALUE OF ETHICAL FUNDS

Thus, large multinational companies are adopting a more integrated approach to the dissemination of their activities to investors, with a closer alignment between CSR teams, investor relations and corporate governance.

The increase in the interest of investors, consumers and employees in these issues will have an impact on the agendas of board meetings and boards of directors. Because not having a corporate responsibility policy is no longer an option, with companies incorporating social impact into their commercial and brand strategies, it is now a requirement for them to thrive and compete for talent, customers and investors. Clients expect more from companies and brands in terms of CSR and new investor funds are being created exclusively for companies with strong ESG performances.

The interest of new investors requires a transparent roadmap by corporations on their public strategies and objectives and measuring the impact of the actions. Moreover, technological, demographic and labor market changes demand social contracts for the 21st century designed to facilitate economic opportunities and security in a context of accelerated change in the world of work[37].

The statement about the purpose of the company recently presented by Business Roundtable is in a similar vein and encourages a collective capitalism that combines services to society with obtaining profits for shareholders. In this way, large multinational companies advocate the creation of value for customers, the treatment of suppliers as partners, the care for the communities and environment in which they operate as well as transparency, efficiency and ethical principles in their business agendas.

6.6
CSR GUIDELINES FOR MULTINATIONALS IN SPAIN

The *Multinacionales por Marca España* association, since its creation in 2014, has adopted CSR as part of its identity, assuming commitments and abiding by the aforementioned multilateral pacts and principles.

This commitment materialized in the creation of a CSR Commission with the objective of developing initiatives in this field, working proactively in its regulation in Spain, participating in promotion and dissemination activities and carrying out research in collaboration with organisms and universities. The result of this activity has been three reports (2015, 2017, 2019) on various aspects of CSR, the environment, sustainability and a recent report on gender equality and conciliation of work and family life in the company.

The table below shows the trajectory of the companies of the Association in terms of the main projects carried out in the aforementioned areas. The last two reports (2017 and 2019) take into account the reference framework set by the Sustainable Development Goals (SDGs) and highlight the essential role played by the private sector in their achievement.

TABLE 5

TRAJECTORY OF THE ASSOCIATED COMPANIES TO MULTINACIONALES POR MARCA ESPAÑA IN AREAS OF CSR

	CSR trajectory in Spain 2015	Sustainability 2017 SDG	Gender Equality, Conciliation and Digitalization 2019
accenture	Social Responsibility Master Plan Supporting the Employment of Vulnerable Groups (Foundation)		Gender (parity in 2015), LGTB collective (50% allegiance), EFR Conciliation Equality and Diversity Strategic Plan, Programs for Women, Conciliation Digitalization leadership, fostering personal and professional growth, Helping vulnerable groups, Minimizing environmental footprint and sustainability of the value chain
Imperial Tobacco ALTADIS	Responsibility for its products, Amenable Working Environment Management of Senior Talent, Volunteering Internal Initiatives		Work-life balance in business, Equality Plan, Talent Management Diversity
AON	Prevention and assistance in natural disasters, Social and work Integration of vulnerable groups, promotion of the Arts and Culture	Sustainability and improvement of the environment: Quality, Recycling, Digital Office Saving on paper and ink toner cartridges, Private Cloud, substitution of computers, Collaborating in environmental risk forums, Electricity Savings, Awareness	Premio Empresa Flexible 2018 por nuestras políticas de flexibilidad y smartworking. Fomento de la cultura de Diversidad e Inclusión. Igualdad de Oportunidades. Programa de Innovación Abierta.
axel springer			Equality Plan, Teleworking Policy, Flexibility Policy
BAYER	Collaborating with Patients Associations, Training and Research scholarships Research, Campaigns to prevent illnesses, corporate volunteering, employees social projects contests		
Coca-Cola			Work-Life Conciliation, Equal opportunities, Commitment to diversity Sustainability through Intelligent Lighting System (Catalyst CEO)
Deloitte.	Volunteering, Social Action, Education Projects Collaborating with NGOs (Impact Day)	Sustainability and Climate Change: Reports to help businesses transform their business models. 2030 Sustainability in the Strategy of Spanish Companies	
DIAGEO	Promoting Responsible Consumption; Transparency (DRINKIQ), Learning for Life; high volume consumption pact for youth employment	Responsible use of Resources, Actions for combating climate change (Emissions, waste), water (efficient use, reposition)	Empowering women through education, Parenting tools, Diversity Action Plan, Talent retention Learning for Life, Global Family Leave Policy, Nutritio-nal information labeling
EY Building a better working world	Entrepreneurial and Social Support Foundation Social Projects Contest, Volunteering, Environmental Management System		

	CSR trajectory in Spain 2015	Sustainability 2017 SDG	Gender Equality, Conciliation and Digitalization 2019
facebook	SMEs and businessmen (Boost your business, educational environment, Youth) Family, Community (Compassion Research Team, Global Security)		Facebook Zone: digital economy, digital society and Women 360
Google	Training in digital competencies (Activate), youth training (Genios). Talent (Campus Madrid)		Employability and entrepreneurship of women in rural environments, Fighting hate and radicalization free training in new technologies, Educating boys and girls equally
HEINEKEN	Social investment in employability, entrepreneurship, education, arts and culture	SDG6 Clean Water and Sanitation; SDG 7 Renewable Energy SDG13 Climate Action; SDG12 sustainable consumption and production; SDG 8 decent work and economic growth SDG3 healthy life and wellbeing; SDG 15 sustainable ecosystems; SDG 4 Quality education; SDG5 gender equality; SDG 10 Reduction of inequalities	Gender equality, Conciliation and Digitalization 2019: Equality Plan, measures for work-family life conciliation and an equal pay policy covering the needs of the workforce with a variable remuneration system. Digital office
HSBC		Lanzamiento en 2012 del Programa Reduce que establece 10 puntos para la reducción de las emisiones anuales de CO2 por empleado en un 40% para 2020. En 2017 amplían su objetivo general de emisiones. El programa incluye no solo la ejecución de grandes proyectos, sino también la adopción de formas de trabajo más inteligentes.	
HUAWEI	Training in new technologies (Leading the LTE era), Scholarships, UNED Professorships, Education (Seeds for the Future)	Opportunities through education: the Future of ICT education program Leading the LTE/5G era, Huawei-UNED Professorship, Huawei Smartbus	
IBM	Technological training for teachers (Watson goes to class); Dissemination workshops technological training for young children and families (Bits&Bytes, IBM Tech School, Tech-4Girls) Student Mentoring, Tech Projects and innovation (Quantum Computing)	Leadership in environmental issues as a global strategy, hiring environmentally certified suppliers reducing water use, recycling non-hazardous waste, annual energy saving, renewable sources and reducing CO2 emissions. Circular economy reduce, reuse, recycle	Courses for teachers; Learning programming skills from an early age, Dissemination technology workshops, Conciliation Student Mentoring, IBM tech School, Closing the digital gap, Young people (own applications) Quantum Computing in Spain (CSIC and IBM), Business and Tech School (UE and IBM), Watson goes to School
ING	Fostering social progress through Education (All for One) Collaboration with UNICEF	Commitment to low carbon and self-sufficient society, affordable and clean energy, responsible production and consumption, climate action	
JTI Japan Tobacco International	Collaboration with social initiatives (Food bank, F. PRODIS, F. Help the Elderly and Support for Culture (Royal Theatre, Thyssen Museum, Friends of the Prado)		Flexible working hours, equal opportunities, women Incorporation (45,5%) Nominated "Great Place to Work", Incorporation of women (45,5%) Actúa and the multiplier effect of the work project Commitment for strategic sectors

	CSR trajectory in Spain 2015	Sustainability 2017 SDG	Gender Equality, Conciliation and Digitalization 2019
LEROY MERLIN	People, Youth training, Suppliers, Diversity, Sustainable Construction Recycling, Social Action	Better habitat , reducing environmental footprint of homes, Sustainable construction, responsible consumption and protection of forests, mitigating climate change in the logistics chain. Caring energy reserve, Leroy Merlin Community	Equal treatment and opportunities for men and women; Increased focus on gender issues in management, Equal pay for men and women, Conciliation
L'ORÉAL ESPAÑA	Innovation, production sustainable development and consumption (Sharing Beauty with all) Training (beautify your future)		
ManpowerGroup	Improving employability of people and adapting to future working environments, Human Age Institute		Teleworking, personal and family assistance services, Diversity and inclusion Equality and inclusion. Equality, development and commitment to talent.
MEDIASET españa.	Broadcasting responsible content, positive work environment, fair relationships, Environment and Campaigns (12 months, You Are Perfect Eres perfecto, I stand up)		
MERCK	Employment support and to enter the job market. Collaboration with associations to help disabled people and vulnerable groups. Participation in programs to offer social educational and emotional support to children with cancer and their families	Employment support and to help enter the job market Refosteration activities, helping disadvantaged groups	Promoters of Closing gap business cluster (identifying source of gender inequality Quantifying repercussion of the gaps and identifying corrective measures). Female Talent Development Plans and maternity support.
MSD	Renovation of Equality Distinction, Renovation of EFR Certificate and its extension to the Salamanca plant, Flexibility Policy and Energy, Water and Paper Saving Campaigns	Caring for the Environment, everyone's responsibility: international Awards and Certifications, MSD y Environmental SDG; Clean water and sanitation, affordable and clean energy, responsible production and consumption, combating climate change	Program to develop female leadership, Signing of anonymous CV protocol online training, flexible work agreements, STEM Talent Girl, Diversity
OmnicomPRGroup			Remote work/Flexible working hours/mentoring and coaching support for women's day/employees day/NGO support initiatives Program to promote equality
oney Tu libertad financiera			Work/family life Conciliation. Teleworking Pilot Project, Flexible working hours, Mentoring & Coaching. Women in senior positions

	CSR trajectory in Spain 2015	Sustainability 2017 SDG	Gender Equality, Conciliation and Digitalization 2019
P&G		Finding value in waste, Forest Sustainability, H&S first recycled plastic packaging, Raising awareness about preserving natural resources, Ensuring access to clean water	Work-family Life conciliation, Men's role in gender equality Teleworking and conciliation policies, extension of paternity leave)
SIEMENS	Committed to the creation of economic value, with people and for the environment		Internal rotation and promotion policies, Identification of female talent (Flexibility, leisure/family, health, service and benefits)
sodexo SERVICIOS DE CALIDAD DE VIDA	Fighting Hunger and Malnutrition (Stop Hunger Foundation). Launch of CSR Roadmap Better Tomorrow 2025 Project Training for insertion of groups at risk of social exclusion - 680 people trained Spirit of Inclusion training, to boost inclusion within operations	ISO 50001 certification 34% of purchases from SMEs Awareness campaigns to promote responsible consumption Implementing the Waste Watch program to reduce food waste	Creation of LGTBI network in the company Gender Balance study on the positive impact on business. APP award We are Sodexo (for collaborators) (Cegos award for digitalization) Initiatives to promote diversity in 5 areas: Gender; Generations, Disability, Culture and sexual orientation
THALES	Inclusion; Education (Thales Workshop), Health, Caring for environment, Commitment to the UN Global Pact, Thales Foundation	Design of ecoefficient products, Management of Resources, Energy Efficiency, CO2 Emissions, Innovation in green technologies	Conciliation, Gender Diversity in Board of Directors, Women Leadership training Agreement with Polytechnic University (Mentoring, CSR-Health, Generational, Gender)
WEBER SHANDWICK	Minimizing environmental impact, sustainability employees, ethical and cooperative working environment Anesvad Collaboration, DACER, Save the Children		

Source: Compiled by the authors based on the reports of the Association of 2015, 2017 and 2019 and contribution of companies

6.7 THE COMMITMENT OF MULTINATIONAL COMPANIES TO THE 2030 SUSTAINABLE DEVELOPMENT GOALS

1. An evaluation of compliance with the SDGs in Spain

Spain has been very active in the implementation of the Sustainable Development Goals, creating the Millennium Fund together with the UNDP and including the implementation of the 2030 Agenda as part of the Government's strategy Action Plan.

This Action Plan identifies the areas in which to develop the so-called leverage policies: prevention and fight against poverty and social exclusion, circular economy and social economy; equal opportunities, scientific and technical research, open government, Spanish Cooperation, the Spanish Urban Agenda and the Law of Climate Change and Energy Transition.

The status quo in Spain regarding the development and fulfillment of the SDGs is mixed, but recognizes the key role of the business sector in the implementation of the SDGs, the need to boost partnerships and increase the mobilization of public and private resources to finance the 2030 Agenda, as well as the fundamental function of business leaders in transforming the entire business community.

According to the analysis, the main challenges for Spain are in the following areas:

1. Poverty and inequality. In 2018, according to the Cáritas report (2019), 18.4% of the population in Spain is at risk of social exclusion (severe to moderate) and 33.2% are integrated but unstable. In addition, 5.1% of the Spanish population (4, 7% of households), has an income categorized as severe poverty[38].
2. Hunger eradication, food security and promotion of sustainable agriculture. The Survey of Living Conditions (INE) shows how the percentage of people who suffer food shortages[39] reached 3.7% in 2017. In 2018, the FAO increased this figure in Spain, indicating that nearly 600,000 people were in a situation of serious food insecurity.
3. The promotion of R&D&I activities to respond to society's need to ensure a healthy life, demographic change and the well-being of citizens of all ages, which requires both the continuation of the public support of the *State Plan for Scientific and Technical Research and Innovation 2017-2020* and the perseverance of businesses in areas of biomedical research and other fields related to health.
4. The education-related SDG raises the need to ensure quality, inclusive and equitable education and to promote learning opportunities for all. In this field, Spain has managed to reduce the rate of early education drop-out in recent years, from 26.3% in 2011 to 21.7% in 2018 in the case of men (14% in the case of

women) according to the National Institute of Statistics (INE) data. In addition, improvements in achieving this objective involve, among other aspects, the progressive implementation of the new Dual Vocational Training modality, with the objective of adjusting the skills imparted in the training cycles to business needs.

5. In terms of the objective related to gender equality and the empowerment of women, the situation in Spain shows that inequality between women and men persists in all areas of life. On the one hand, there is an average salary gap of 5,941 euros according to the National Institute of Statistics (INE) Annual Salary Structure Survey[40]; part-time employees are mostly women and women also are employed in jobs where the highest temporary rates are registered; indeed, 75% of people with part-time work are women. And this salary inequality also affects the retirement pensions received by women.

This inequality can also be seen in relation to women's access to STEM careers (Science, Technology, Engineering and Mathematics). The digital divide occurs in all professional areas and categories. Thus, the presence of women in these disciplines has hardly increased in almost 20 years, from 33% in 1999 to 37.4% in 2017[41].

The most serious manifestation of inequality between women and men is undoubtedly gender violence. In 2018, a total of 41,738 gender violence complaints were reported according to the Observatory against Domestic Violence and Gender of the General Council of the Judiciary, 3% higher than the previous year. According to the same source, the number of women killed by gender violence between January 1, 2003 and June 30, 2019 amounts to 1,003.

6. Objective 6, related to guaranteeing the availability and sustainable management of water and sanitation for all, puts Spain in a good light, with 99.5% of the water available suitable for consumption and 98.4% of the population connected to wastewater treatment plants. However, a problem related to water stress persists, whose indicator[42] reaches 20.6%, one of the largest in the European Union, with unfavorable projections increased by climate change which in turn is increasing water scarcity in Spain.

7. SDG 7 focuses on the energy sector and seeks to guarantee universal access to affordable, safe, sustainable and modern energy. Unlike the European Union (EU-28), Spain has not yet been able to implement an energy policy that decouples in absolute terms the growth of its economy from greenhouse gas emissions. Fossil energies[43] still constitute the core of the system, representing 74% of primary energy. Renewable energy accounts for 14% and nuclear, the remaining 12%.

The objective of guaranteeing access to energy for all citizens can only be achieved by making the service affordable. In 2018, a total of 6.8 million Spaniards, 15% of the population, suffered from energy poverty according to the Association of Environmental Sciences (2018).

8. The objective of promoting sustainable, inclusive economic growth and full and productive employment in Spain remains one of the main concerns, due to the distance that still separates it from the Eurozone average. Although both the occupation and the unemployment rate have had positive behaviors since 2014, at present, and according to the Labour Force Survey (EPA) data (INE, 2Q 2019), the unemployment rate in Spain is 14%, practically double than in April 2019 for the Euro Zone (7.6%). The economic policy that is applied, and above all, business activity in Spain and social dialogue, will be decisive in reducing this gap.

9. The objective of achieving sustainable infrastructure and industry and fostering innovation in Spain presents a positive outlook in relation to neighbouring countries, both in terms of physical infrastructure and telematic networks, although there is room for improvement, for example, by taking advantage of the opportunities offered by digitalization. In the same way, Spain is considered a moderate innovator. As the latest European Commission report on Spain points out[44], "*Innovation is hindered by a number of factors, which also affects productivity. In Spain, the level of innovation is moderate compared to the EU. The country's innovation results suffer from insufficient investment in public and private R&D, but also from poor coordination between the different levels of administration and insufficient policy evaluation*."

10. In the area of inequality reduction, both internally and with respect to other countries, and although the percentage of people at risk of poverty[45] or social exclusion in Spain decreased slightly in 2017, it remains high, especially in the case of children. As the aforementioned EU report points out, "*temporary workers, low-skilled workers and those born outside the EU are among the most exposed to the risk of poverty. Public spending on family benefits, which is half that of the EU average, is still not sufficiently targeted to low-income families*."

11. The objective related to the creation of resilient and sustainable cities and communities in Spain presents important challenges arising from the aging of the population, rural depopulation, and vulnerability to climate change. Cities have become the undoubted engine of economic growth, and therefore of Foreign Investment, and the sustainable development challenges presented by this new reality are related to accessibility, inclusion and sustainability of growth models so that, once again, public authorities and companies put the citizen at the center of their activity.

12. Responsible and sustainable production and consumption is a cross-cutting objective. One of the elements of concern in all developed economies is that of waste management. In Spain, the collection and treatment of urban waste, according to the latest data prepared by the National Statistics Institute INE, corresponding to 2016, amounted to a total volume of 21 million tons. Although this figure has been reduced since 2010 by 11.0%, it represents 1% more per inhabitant (471 kg) than the previous year (2015). The most important challenges in relation to these data is the adoption of initiatives to promote a circular economy that encourages awareness in the different agents that generate waste, and to increase an interest, not only from an environmental point of view but also from an economic one, in how to prevent waste generation and encourage recycling, recovery and re-using strategies.

13. The rest of the SDGs, related to the fight against climate change, the conservation of oceans and marine resources, the management of forests and desertification, respond in a pre-eminent way to State policies that must be implemented with the support of the private sector.

Regarding these, the Government of Spain is working on updating the Roadmap of the Diffuse Sectors to 2030, in a National Integrated Energy and Climate Plan for the period 2021-2030, and in a future Climate Change and Energy Transition Law.

Global environmental problems, especially climate change and desertification put additional pressure on natural resources and, in particular, on terrestrial biodiversity. That is why, in recent years, a growing effort by the Public Administrations has been made to foster new approaches to strengthen the resilience of ecosystems in the face of climate change, and to mitigating the impact of other climatic risks, such as fires, which are indirectly enhanced by climate change. The high biodiversity of Spain means that special attention is given to the sustainable use of resources linked to our natural heritage as a source of innovation in the national economy.

Finally, the objective of justice, peace and solid institutions affects both the public framework and that of private companies. Open government is not only a way to accommodate society in decision-making, but a way of understanding public governance in institutions. Accountability is, consequently, a necessary instrument.

2. The role of foreign multinationals in Spain in fulfilling the SDGs

Environment and sustainability

Multinational companies have adopted environment and sustainability policies not only as a responsibility, but also as an opportunity, while maintaining a permanent preventive policy and adopting environmental protection measures.

In addition to the individual contributions that have been seen above, the Foreign Multinationals for the Spain Brand Association has carried out work to contribute to sustainable development goals. This work includes, among other initiatives:

- Monitoring information on the impact of economic activity on the environment, health and safety, with the aim of establishing an appropriate environmental management system for each business model.
- Aligning the activity of multinational companies with international commitments and national environmental policies.
- Anticipating and evaluating the foreseeable impacts on the environment and the health and safety measures associated with business activity in order to avoid or minimize such impacts and improve emergency plans to mitigate possible damage.

- Encourage the adoption of technologies focused on energy efficiency, emission reduction and recycling.
- Increasing customers awareness to the responsible and neutral use of business products and services regarding the environment.
- Appropriate training for employees in the fields of environment, health and safety, environmental management, environmental impact assessment, and environmental technologies.
- Contributing to the development of an efficient public environmental policy through collaboration agreements or initiatives that increase environmental awareness and its protection.

In the field of proposals for climate change, the association *Multinacionales por Marca España* is in favour of ambitiously addressing the process of decarbonization of the Spanish economy, adopting short-term measures that would help overcome the barriers that delay this process. To this end, they are committed to establishing a stable, coherent and harmonized regulatory framework with the countries around us, which favors the transition to a low-carbon economy aligned with the Paris agreements and the 2030 Agenda. In this framework, the implementation of the Law on Climate Change and Energy Transition, whose draft bill was signed in February 2019[46], is an indispensable requirement to consolidate that process; a stable, effective and ambitious standard that provides a stable legal framework for investments and long-term strategic business plans.

Reconciliation of work and family life and gender equality in companies

As the diagnosis of the SDGs fulfillment in Spain proves, despite the progress in equal opportunities in recent years, especially in legislative matters, there is still a long way to go to end the gender gap, both in strictly labor terms - part-time contract typologies, salary inequality or levels of responsibility within the company - and in terms of the reconciliation of work and family life.

Multinational companies are pioneers in this field and develop extensive programs to attain gender equality and the reconciliation of family, personal and working life of the members of their organizations. They are integrated into their labor and business policies, and multinationals have a permanent commitment to improve good practices in these areas.

The implementation of good practices in the company in relation to gender equality and home/work balance improves productivity and the work environment, as well as corporate reputation and the attraction and retention of talent.

Even so, there is still work to be done. In its *Gender Equality and reconciliation of work and family life report* (2019), *Multinacionales por Marca España* has pointed out some reasons to continue working for gender equality and reconciliation of work and family life and given some recommendations.

The following reasons stand out

- The achievement of an egalitarian culture is not only an economic imperative, but also a business priority that favors innovation within organizations.
- The reduction of the wage gap between women and men would generate a 5.3% increase in employment worldwide[47]. The wage parity indicator places Spain far from the most advanced countries[48], indicating the need for policies that foster progress in this field.
- Work for the SDGs dedicated to gender equality and eradicating all forms of discrimination against women and girls, as a basic and necessary right to ensure sustainable growth.
- Attend to the principles of gender equality that emanate from EU policies related to gender equality and women's rights, areas directly linked to business activity or that can impact on corporate actors as well as on the fight against gender violence
- Gender equality conceived as a generator of value for companies and women's participation in management positions and boards of directors. Although the share of participation of women in management positions is growing considerably according to the survey recently carried out by the World Labor Organization[49], there are still many 'glass ceilings' in sectors and companies.

The recommendations made take into account both the public sphere of responsibility and the corporate environment itself, and among them are those directly related to the fulfillment of the SDGs.

The specific recommendations for businesses focus on:

- Developing salary policies and selection processes that are equitable, fair and gender neutral
- Promoting measures of effective reconciliation of work and family life
- Executing strategic plans for the elimination of "glass ceilings" and vertical segregation in the company

Specific recommendations for Public Administrations focus on:

- Promoting public-private collaboration in the reconciliation of work and family life
- Improving the infrastructure of care services for minors and elderly dependents
- Promoting women's training in STEM competences
- Promoting education in equal opportunity values
- Providing incentives for companies in the development of gender equality policies

NOTES

34. Renewed Strategy of the European Union on Corporate Social Responsibility (2011), OECD Guidelines for Multinational Enterprises (2011), the ten principles of the United Nations Global Compact initiative, the Tripartite Declaration of Principles on Multinational companies and the social policy of the ILO (2017), the United Nations Guiding Principles on Business and Human Rights (2011), the United Nations Principles of Responsible Investment (PRI) (2016) and, fundamentally, the United Nations Sustainable Development Goals (2015).
35. EERSE (2015)
36. Reputation Institute (2019)
37. WFE (2018). "What Attracts International Investors to Emerging Markets", WFE (2019), "Investing in Emerging and Frontier Markets: an Investor Viewpoint"
38. Income less than 30% of the equivalent median income.
39. Measured by the percentage of people who cannot afford a meal with meat, fish or chicken every other day.
40. Data published by the INE in 2019 corresponding to 2017.
41. Data from the study on 'Salaries and labor policy in the ICT Sector 2017-2018', prepared by the employer association of the technology and digital sector AMETIC in 2018.
42. The ratio between the resources used and the total available in the long term.
43. Coal is the fossil fuel that generates the most CO2 emissions 17% of total emissions, while oil is responsible for 52% and natural gas for 15%.
44. Report on Spain 2019, with an exhaustive analysis of the prevention and correction of macroeconomic imbalances, European Commission (2019) Brussels, 27.2.2019 SWD1008 final.
45. The Gini index, which is used to analyze the degree of inequality in the distribution with respect to income, shows an increase of 1.6 points between 2008 and 2017, from 32.4 to 34.1, and reached its maximum value in 2014, 34.7. Since 2015 it has been declining slightly, one tenth in that year, another in 2016 and four in 2017.
46. The draft (Law 10/2019, of February 22, on climate change and energy transition) has two major proposals to reduce greenhouse gas (GHG) emissions, introducing renewable energies and being more efficient in the use of energy, with specific objectives set for 2030.
47. Global estimates of the gender wage gap are estimated at 22% of monthly salaries. ILO (2018) "Global Wage Report 2018/19. What lies behind gender pay gaps".
48. WEF (2018): "Global Gender Gap Report 2018".
49. ILO (2019).

ANNEXES

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

- AV - Added Value
- CGE – Computable General Equilibrium model
- CSR Corporate Social Responsibility
- DIRCE - Directorio Central de Empresas - DIRCE Central Companies Directory
- EERSE - Española de Responsabilidad Social Empresarial, Spanish Corporate Social Responsibility Strategy
- ESG - Environmental, social and governance
- ETVE – Entidades de Tenencia de Valores Extranjeros, Foreign Securities Holding Entities
- EU - European Union
- FDI – Foreign Direct Investment
- FILINT – Statistics on Affiliates of Foreign Companies in Spain
- GDP - Gross Domestic Product
- GII – Global Innovation Index
- GVC – Global Value Chains
- IIP - International Investment Position
- INE – Instituto Nacional de Estadística
- MNE – Multinational Entergprise
- OECD - Organization for Economic Cooperation and Development
- R&D – Research and Development

- RIE – Registro de Inversiones Exteriores, Investment Registry
- SDG -Sustainable Development Goals
- STEM – Science, Technology, Engineering & Maths
- TIVA – Trade in Value Added
- UNCTAD – United Nations Conference on Trade and Development
- WAIPA – World Association of Investment Promotion Agencies

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