multinacionales por marca España

MULTINATIONAL CORPORATIONS IN SPAIN AN ANALYSIS OF THEIR CONTRIBUTION TO SPANISH GROWTH AND DEVELOPMENT

multinacionales
por marca España

Contact adress:

Paseo de la Castellana, 95 - planta 15
Edificio Torre Europa
28046 - Madrid - Spain
Tel.: + 34 91 418 50 71
www.multinacionalesmarcaespana.org
secretaria@multinacionalesmarcaespana.org

Universidad Camilo José Cela

Multinational Corporations in Spain
An analysis of their contribution to Spanish growth and development

Report commissioned by:
Observatorio de Economía e Inversión Extranjera
(Multinationals and the Spanish brand)

A publication of:
Universidad Camilo José Cela

INDEX

01

INTRODUCTION

1. Letter from the Chairman

The presence of foreign multinationals in Spain has an extremely positive impact on investment, employment and innovation among other factors. So it is important to highlight this contribution and especially so when it can reasonably be said that the presence of these companies has done much to offset the damage to indicators such as employment figures during the recession.

This report offers a true picture of this contribution and an analysis, both quantitative and qualitative, of several key issues that are positively influenced by foreign multinationals in Spain: wealth generation and added local value, domestic employment and attracting talent, trade and international markets, modernisation, productivity improvements, efficiency and the development of public and private business ecosystems in the domestic market. It is clear that these companies are committed to investing in our country and helping further our social and economic development.

Two years ago, faced with a turbulent economy, a small group of foreign-owned companies from different sectors joined together to create Multinacionales por marca España (Multinationals and the Spanish brand). The idea was to remind citizens and public bodies of what these companies do for Spain, to remind the companies themselves of why they are in Spain and to work with them to create the best operating environment for their subsidiaries.

We now have 40 companies in our association and some of these have been in Spain for more than a century, others have been here for a few decades and still others are new arrivals. But all share one important characteristic: they are a precious asset for Spain. The very fact of their operating and working in our country safeguards and transmits the image and reputation that Spain deserves.

Adolfo Aguilar

Chairman, Multinacionales por marca España

2. Executive Summary

Spain continues to hold its own among the most important destinations for foreign investment. In 2014, it was ranked twelfth in the world and third in Europe in terms of net inward Foreign Direct Investment (FDI) flow and ninth in terms of stock. According to the United Nations Conference on Trade and Development (UNCTAD), Spain held 2.8% of global FDI stock and 7.9% of EU stock in the same year.

At the end of 2013, there were an estimated 10,700 subsidiaries of foreign companies in Spain, spread across Industry and the Services sector. Although these represent a tiny percentage of the total number of companies in the country (0.53%), their contribution to the local economy is significant since they tend to be considerably larger than the average Spanish company. Indeed, they account for 34.3% of the large companies in the country and between them they generate 28% of national turnover and almost 30% of added value in their sectors, as well as 22.4% of salary expenditure. In spite of the recession and the tricky operating environment, they have remained buoyant and even managed to grow whilst their national counterparts have suffered, increasing substantially their relative importance in the national economy.

Inward FDI flows have remained more stable than other forms of foreign investment following the sharp fall caused by the last global financial crisis and have risen steadily from 2009 to reach €21,724 million in 2015, according to the National Investment Register (Registro de Inversiones) greenfield (new) operations, with a marked emphasis on expansions, account for most of the productive investment undertaken and the authors of this activity have, for the most part, been foreign companies already established in Spain.

These inflows are principally from OECD countries and, in particular, from other European partners; from 2009 to 2015, the United Kingdom, France, the USA, the Netherlands and Luxembourg have been the biggest investors in Spain. Preferred sectors are Services (58.4%), Industry (31%) and Construction (8.8%) with negligible investment in the Primary sector. Madrid and Catalonia take the lion's share, which is not surprising, given the number of headquarters in each.

Productive FDI stock, the preferred measure for investors, reached €298,131 million in 2013, or 28.9% of GDP for the year. The USA, Italy, France, Germany and UK top the list. About one third of this stock is made up of tangible fixed assets, and this gives us a good idea of the true regional breakdown of these investments. Catalonia, Andalusia and Madrid are the key regions here.

In addition, according to fDi Markets, Spain was the destination of choice for 12.35% of greenfield projects in Europe between 2003 and 2014 and for 2.18% of the world total for the same period. Spain receives an annual average of almost 400 projects, creating 30,600 local jobs and amounting to more than $14,000 million in investment.

This investment helps keep the economy healthy in times of difficulty, by providing liquidity when the country's own resources are stricken by recession or similar. The Spanish economy exhibits fairly persistent external debt. Prior to the recession, easy access to overseas accounts fuelled corporate growth and international expansion and this, to some extent, explains the higher ratios of private debt.

Foreign companies are important taxpayers. In developed countries, they account for around 15% of private contributions and 5% of total revenue. The tax burden in Spain is below the average for developed countries but above the European average, at around 50% between corporate tax, income tax and others. Using data gleaned from The National Institute of Statistics (INE), we can estimate that the subsidiaries of foreign entities contribute more than €19 billion euros to Social Security (19.5% of the national total) and more than 10% of personal income tax.

1.27 million people are employed by the subsidiaries of foreign companies, especially in the industrial sector. Not only does this represent 13.34% of total employment in their respective sectors but also an increase of 5.7% since 2008, which is striking when compared with the decline in employment registered in Spain over the same period. European companies are responsible for almost 80% of employment, followed at quite a distance by firms headquartered in the USA (16.4%) and Asia (4.1%). As if this were not enough, these companies are thought to be indirectly responsible for a further 1.4 million local jobs.

When all of this is taken into account, we can safely say that FDI contributed to a 5.25% growth in employment between 2006 and 2013. We can also say that FDI added €6.9 billion to Spanish GDP in 2015 as well as 153,800 jobs.

But the positive impact of foreign multinationals in Spain is not limited to the quantity of jobs that are created and maintained. The quality of these jobs also benefits: salaries, conditions and working hours are more generous, access to training and prospects for career progression are greater and there is closer attention to diversity and the workplace. Foreign subsidiaries tend to offer salaries that are at least 35.8% above the national norm and these have been increased in the past eight years despite the recession. The same companies have pioneered the introduction of quality employment policies and practices that benefit the local workforce and help to raise the standards of local companies, which must emulate and compete with their foreign counterparts in order to recruit good staff.

And on the subject of good staff, the presence of international companies tends to act as a magnet for professionals from other countries - especially the more senior or specialist - and in so doing contributes to a positive image for the host country by showcasing local and foreign talent alike. In much the same way, it stimulates entrepreneurial activity in its vicinity, both by providing opportunities to local suppliers of goods or services and by creating a vibrant local business environment.

Multinationals are undoubtedly the principal protagonists in the development of Global Value Chains (GVCs) and their decision to invest has a profound impact upon the trading pattern of the countries in which they set up a subsidiary. These GVCs account for 80% of world trade and the relationship between a country's trading profile and the levels of FDI stock it holds should not be underestimated. 26.9% of the added value of gross Spanish exports is thanks to foreign inputs, compared with 19.7% for added domestic (Spanish) value to foreign exports. Spanish participation in Global Value Chains is registered at 46.6%, which is in line with other European economies with a similar level of economic development.

The number of Spanish exporters is still relatively low, and their modest dimensions and resources limit their ability to establish and consolidate positions in international markets. FDI is definitely a stimulus for these exporters and fully 40% of Spanish sales abroad originate from foreign-owned companies. FDI also helps Spanish companies to become part of the afore-mentioned Global

Value Chains and through them to become global suppliers. Other indirect benefits derive from the adoption of good practices, knowledge transfer and expansion of contact networks, all made possible by the recruitment of staff who have previously worked in multinational firms. Still other corporations use the Spanish market as a platform for third countries and in so doing, lend a further international dimension to the local economy.

It goes without saying that the mere presence of a multinational in a given market gives a boost to its image abroad. Foreign companies, their foreign staff in Spain and the Spanish staff within their international corporate structure, contribute to the projection of a strong and positive image abroad for Spain, which in turns has a beneficial effect upon the economy, helps increase investment and exports and encourages talent and knowledge to gravitate towards the country.

Innovation in Spain is heavily influenced by the subsidiaries of foreign companies that not only spearhead innovation themselves but also permit their collective knowledge to seep into the local business environment. They spend more on training, R&D and technology than their national counterparts and their FDI helps to plug the gaps in local value chains. 9.4% of the companies in Spain that are classified as innovative are foreign-owned, and this percentage rises to 29.9% if we filter out those with fewer than 250 employees. If we filter further and consider only privately-owned companies with 250 employees or more, the number is closer to 50%. Foreign companies account for anything between 31% and 39% of innovation spend, depending on the year, and for hiring 21% of employees involved in innovation.

Although a relatively recent phenomenon, there are cases of R&D centres located outside their countries of origin. Many of these are involved in product or process development tailored to local market tastes or needs but some are innovation centres with a worldwide remit. In most OECD countries, foreign companies' R&D spend is at least 20% of the national total. In Spain this percentage is 35.3%. If we look at Industry and Construction, 17,000 local staff involved in R&D are employed by foreign enterprises.

This technology transfer is evident when local companies benefit from subcontracting or outsourcing agreements, when they copy systems or processes from foreign multinationals or ask for demonstrations of the same - or indeed when multinationals second staff or licence technology to these local firms.

The presence of multinationals also has a positive effect on local productivity and competitiveness. It introduces pressure on existing cost structures, motivates companies to improve their products and processes and acts as an incentive to economies of scale. Even where acquisitions are concerned, the effect is positive since the buyer can not only identify those companies with the greatest potential but also help them to realise that same potential by providing access to assets and resources. The correlation between FDI flows and productivity is pronounced and positive: those productivity problems that are caused by limited size and correspondingly reduced access to resources and knowledge are more easily overcome with an injection of capital such as that provided by FDI. At the same time, a capital boost can allow companies to enter emerging sectors where the added value and the potential rewards are high but the risk is too.

There is no doubting the contribution of multinationals in the area of Policy Advocacy. Either directly or through the intervention of Investment Promotion Agencies (IPAs), they greatly assist in modernising and loosening the constraints of the business environments in their chosen countries of operation. They seek and actively help develop a simple, comfortable support structure for their business activity. This relies upon a streamlining of policy between countries and the spreading and sharing of best practices, regulations and standards. They act as long term partners of the countries that host them and, less constricted by the short term preoccupations common to the political class, are better prepared than most governments to appreciate the changes and challenges on the horizon to which they must all adapt.

The influence they exert on governments tends to be eminently positive and has resulted in tremendous benefits in the spheres of education, infrastructure and communications.

Despite an understandable decline in the wake of the recession, FDI has enjoyed exponential growth in Spain, especially since the 1990s

3. Global context

Foreign Direct Investment can reasonably claim to have helped create the more international approach to economic production that the world has witnessed over the past few decades. It has contributed to the development of a more integrated world economy and boosted growth in countries of all types and all levels of development, creating long lasting, stable links between them and participating in a reconfiguration of the former world order.

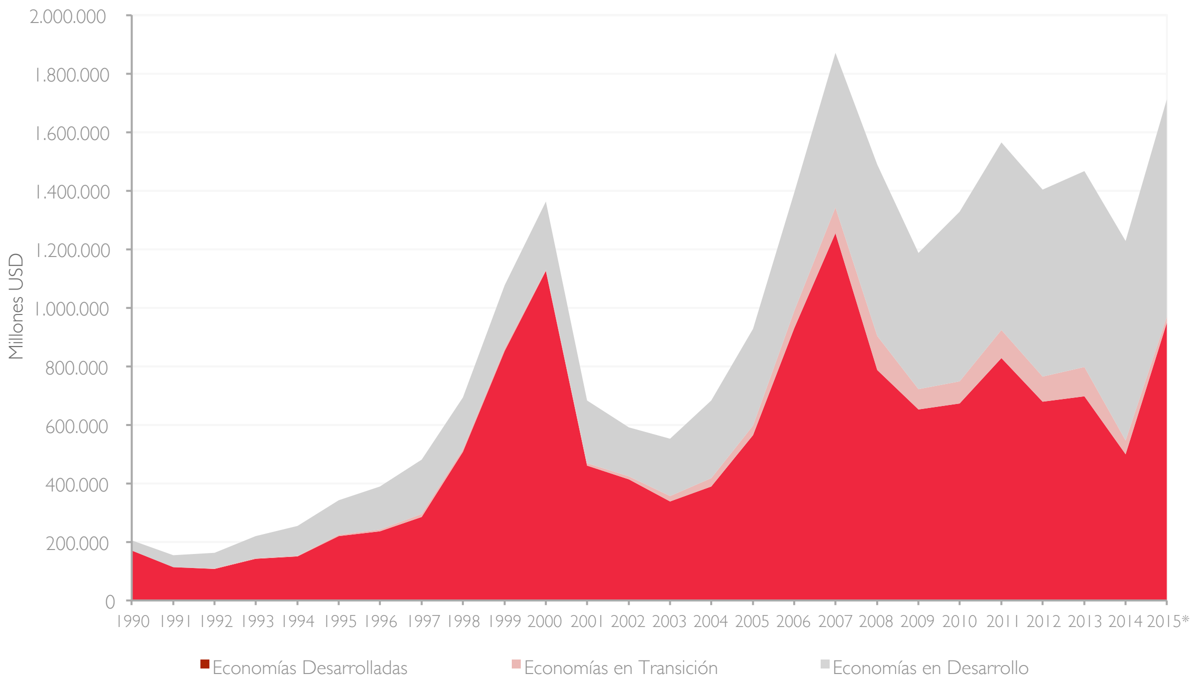
Multinational companies are key players in this process, through their exports and foreign investments. The concept of a multinational company is nothing new. Back in the 1960s, there was talk of companies "with their headquarters in one country but that operate in line with the laws of other jurisdictions" [1] and of course, corporations such as General Electric already had operations in Spain in the 1950s. In attempting to define these companies, they were often described as those with decision making and control in one country but with investments and assets in another. However we characterise them, it is plain to see that their ´transnationality´[2] index and their influence over the future of the world economy has never stopped growing.

Leaving aside the recent decline in FDI occasioned by the world recession, and which has already been partly corrected by an upswing in 2015, no one could deny that the growth of FDI has been exponential, especially since the 1990s. To a significant extent, this growth reflects the degree to which companies have become international and serves as a reliable indicator of global expansion. The protagonists of the FDI story have traditionally been the more developed countries and as recently as the beginning of this century, around 80% of all FDI flows were from developed nations, with the European Union an important source of and destination for FDI. However, since the mid-2000s and, in particular, since the onset of the recession in 2007, emerging markets have begun to register outflows of FDI.

UNCTAD[3] estimates that global FDI flows recovered their pre-recession levels in 2015, rising 36% to reach 1.7 billion dollars. This increase owes much to cross-border mergers and acquisitions, since greenfield investment registered little change from the previous year. It should be borne in mind, also, that these impressive FDI flows are influenced by reshuffles of territorial responsibility among large corporations and, as such, have a considerable impact on the balance of payments without any substantial redistribution of resources.

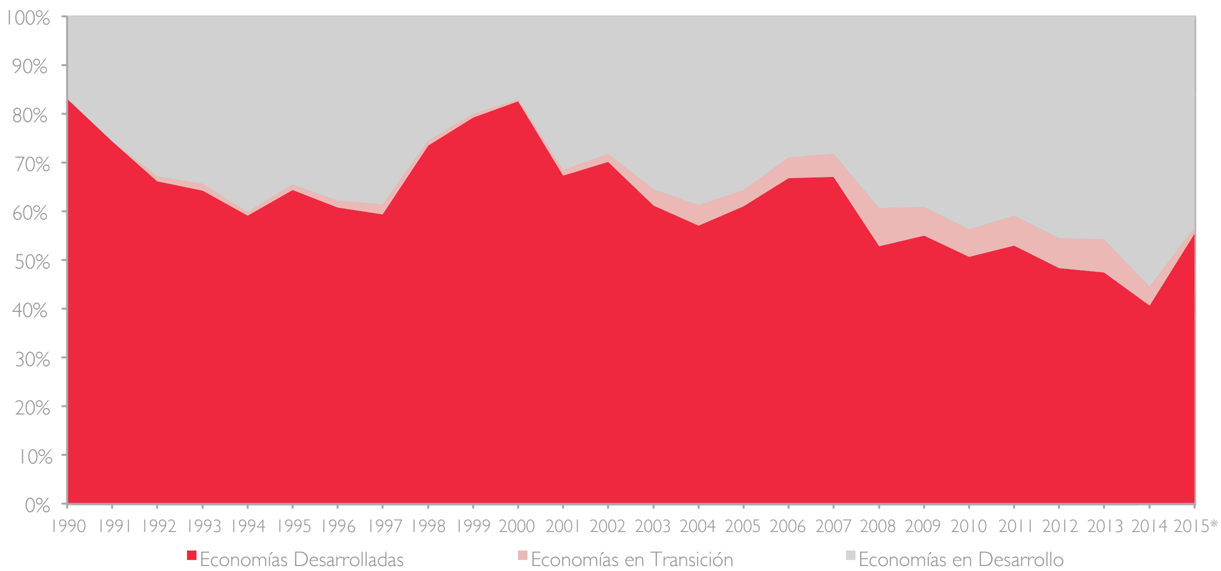
1. David E. Lilienthal (1960): "The Multinational corporation", Carnegie Institute of Technology, April 1960.
2. UNCTAD – Transnationality Index (TNI)
3. UNCTAD (2016): "Global Investment Trends Monitor", January 2016

Figure 1: Evolution of the FDI inflows by group of economies, Millions of USD, 1990-2015



*Source: UNCTAD, January 2016 - *Preliminary estimates. Excluding Caribbean offshore financial centres.*

Figure 2: Evolution of the FDI inflows by group of economies, Percentage of the total



*Source: UNCTAD, January 2016 - *Preliminary estimates. Excluding Caribbean offshore financial centres.*

Unless there is a new burst of mergers and acquisitions and corporate restructurings, UNCTAD expects FDI flows to fall in 2016, owing to global concerns such as geopolitical tensions, weak demand, volatility in the financial markets and the slowing of important economies. These factors seem likely to outweigh the usual stimuli to investment (a return to health by developed economies, currency depreciation in emerging markets, increased demand as a result of lower oil costs and monetary policy in the Eurozone).

> There are subsidiaries of multinationals that have been in Spain for 50 years or more that could reasonably be described as multinationals themselves

As far as Spain is concerned, FDI has been a critical lever in its growth since the Stability Plan of 1959, which ended its isolationist era and opened up the economy. FDI was initially deployed to help build basic infrastructure, develop the banking system and manage certain natural resources, but little by little, it gained protagonism in the productive backbone of the country and foreign companies began to establish a permanent presence. When Spain joined the European Economic Community in 1986, inward and outward investment flows began to spiral in earnest.

Progressive liberalisation of the Spanish market brought opportunities for national and foreign companies alike. For foreign companies, there was a chance to access a new market and take advantage of the competitive costs of manufacturing in it. In 1994 the pace of investment began to slow, but it rebounded with a vengeance between 1999 and 2002 after Spain joined the European Monetary Union. At the same time, the Spanish holding company model (ETVE) became popular as its tax appeal became widely recognised.

This rosy period ended with the new century when the impact of ten new countries in the EU became apparent. These countries, closer to Central Europe and with lower labour costs, had a pronounced effect on Spain's FDI inflows. Investors were able to choose from a wider selection of countries for their project and investment into Spain began to reflect the market niches best suited to its new status as one of the more developed economies within the new European order.

Things looked up again in 2007 and 2008, when several major corporate operations had a pronounced and positive effect on FDI flows but immediately following this bonanza, the recession struck and FDI flows suffered accordingly. Nonetheless, 2009 marked the start of an upward cycle which continues to this day and which peaked in 2011 thanks to major investments related to mobile telephony licences and an airline merger.

These days, there are foreign multinationals that have already celebrated their 50th birthday in Spain and that gives them a venerable status that many prestigious domestic companies would envy. Some of these subsidiaries have proven so successful and promising in their own right that they have taken on international portfolios of their own and become Spanish multinationals within foreign multinationals.

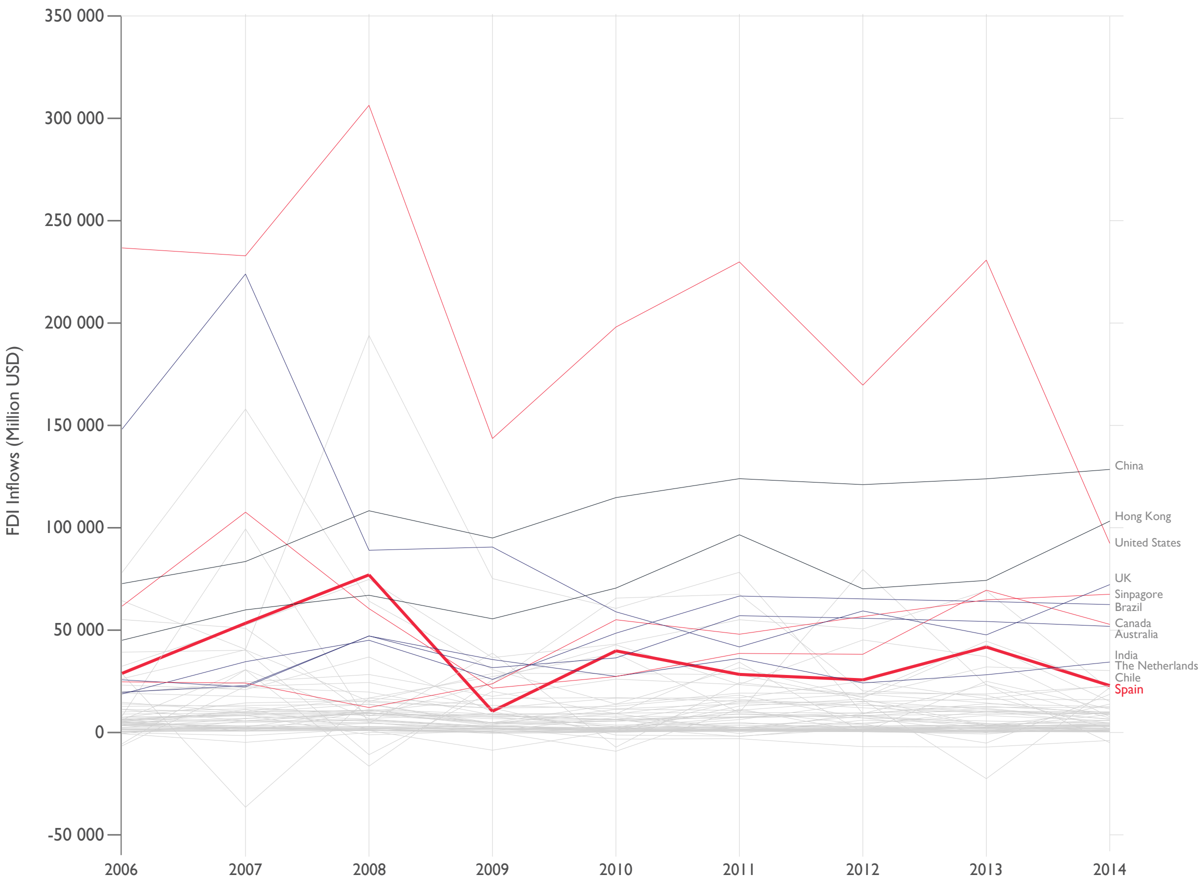
Regardless of how long they have been in Spain, there is no question that these companies, individually and collectively, have played a key role in the industrialisation of Spain and the opening up of its economy. This report attempts to highlight the most important aspects of this contribution from a quantitative and qualitative perspective, with special emphasis on wealth generation, employment and skills, trade and the international arena, productivity, efficiency and development of local public and private business ecosystems.

02

WEALTH GENERATION

In spite of its tendency towards a negative internal press and international comparisons regarding its theoretical attractiveness for foreign investment, Spain manages to hold its position as a top destination for foreign investment worldwide. In 2014, according to the latest data available from UNCTAD, Spain was ranked twelfth in the world for FDI inflows ($22.9 billion), third in Europe and second in the Euro-Zone, after the UK and the Netherlands. FDI inflows received by Spain represented an average of 3.6% of total annual inflows between 1990 and 1999 (8.8% of inflows to the European Union), 3.9% between 2000 and 2008 (11.0% of those of the EU), and 2.0% in the period following the last global financial crisis (8.1% of EU). In this latest phase, the increase of inflows towards developing economies has eroded the share of the main developed countries.

Figure 3: Top FDI host economies, Millions of USD



Source: UNCTAD 2015

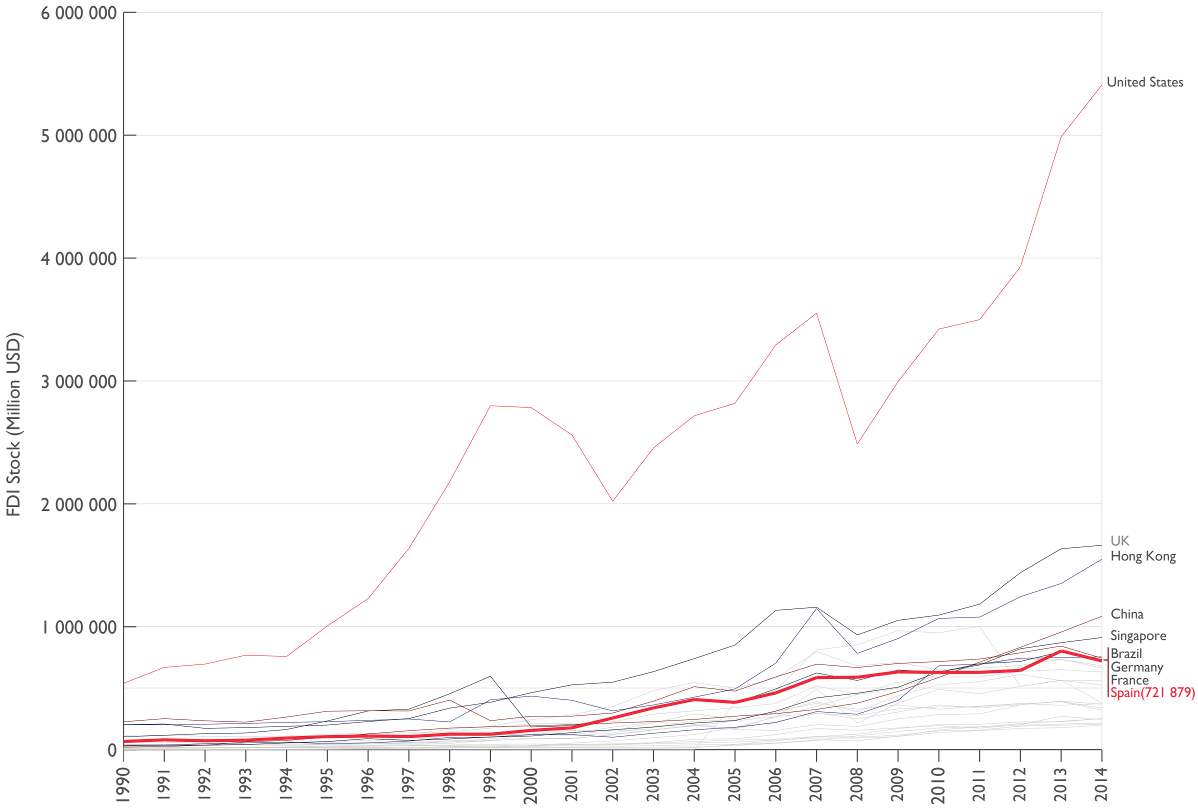
Moreover, in terms of global FDI stock, Spain ranked ninth in 2014, with $721.9 billion. This figure represents 2.8% of global stock and 7.9% of stock in the European Union, slightly below the Spanish average since 2009 (3.1% and 8.5%, respectively), but above the weight of the country in terms of GDP (1.8%[4]) and in terms of its share in the export market worldwide (1.7% in Goods and 2.7% in Services[5]).

As the following graph shows, Spain's increased importance in terms of stock has been outstanding, growing from $65.9 billion in 1990 (12.3% of national GDP for that year) to $177.5 billion at the end of the century (26.2% of local GDP), and from there to the maximum of

4. IMF, World Bank
5. World Trade Organization

$802.8 billion registered in 2013 (57.6% of GDP). In 2014, Spain was ranked fourth in Europe in terms of inward FDI stock, behind the UK and Germany and very close to France, almost duplicating the figures registered in countries such as Italy, Ireland or Sweden.

Figure 4: Top FDI host economies, Stock, Millions of USD



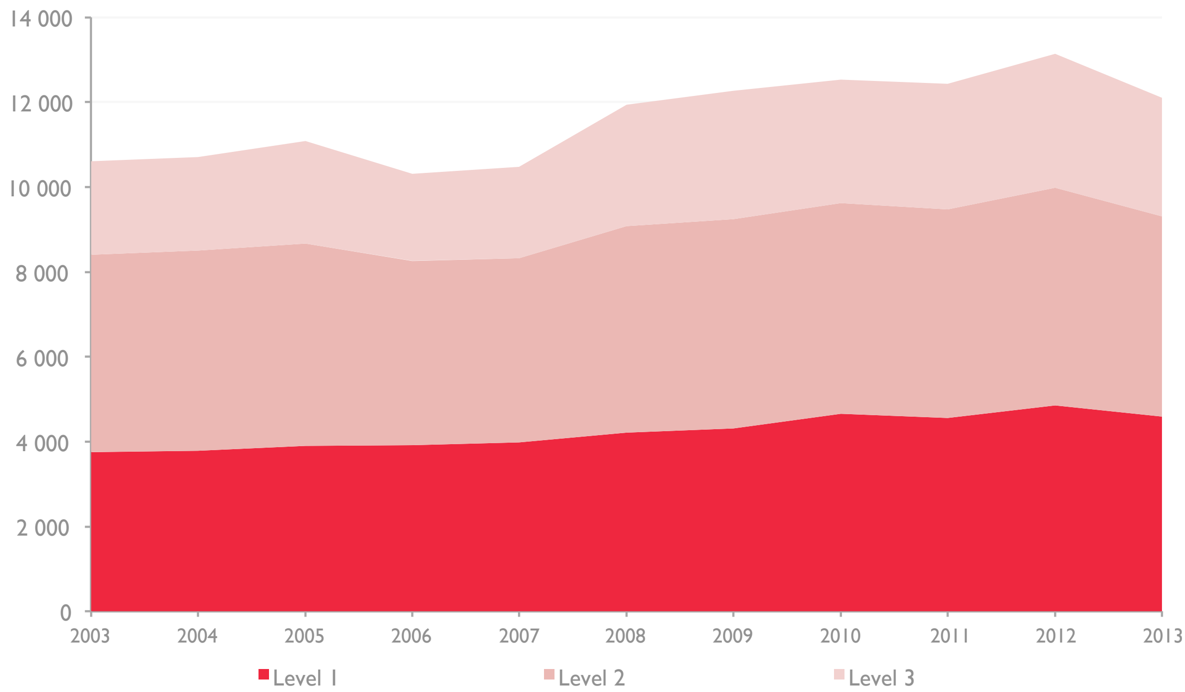
Source: UNCTAD 2015

1. Changes in the number of foreign companies

At the end of 2013, the most recent year for which data are available, the number of companies submitting declarations to the Foreign Investment Registry (Registro de Inversiones Exteriores) in Spain was 12,103, 7.9% fewer than the previous year. 4,492 of them (37.9%) were classified as parent companies within a group, while the rest (7,511) were subsidiaries. The level of control of the parent group over its affiliates is significant, with 83.5% of them controlling over 75% of the capital, and 89.2% controlling 50% or more.

> In 2014, Spain was ranked ninth in terms of accumulated FDI stock, with 2.8% of world stock and 7.9% of EU stock

Figure 5: Changes in the number of foreign companies in Spain, 2003-2013



Source: Registro de Inversiones, Foreign Direct Investment reports, 2007-2014

Level 1: Parent company of the declaring group. Levels 2 and 3: Companies owned by Level 1 companies

When we analyse the consolidated data at group level, that is, assigning to the parent company the data that correspond to its affiliates, we observe that the stock is concentrated in a small group of large companies (86 groups hold 59.2% of the stock). The same is true of employment (395 companies account for 78.5% of the total number of employees working in companies whose capital is wholly or partially foreign). In 2013, 40.8% of those companies had fewer than 10 employees, 29.4% had between 10 and 100 employees, 20.2% between 100 and 500 employees, and just 9.6% more than 500 employees. In spite of this range of sizes, as we shall see in the following chapters, the percentage of medium and large companies is greater among foreign companies than in the national economy overall. This partly explains why the contribution of these foreign companies to the local economy is disproportionately greater than their numbers might suggest.

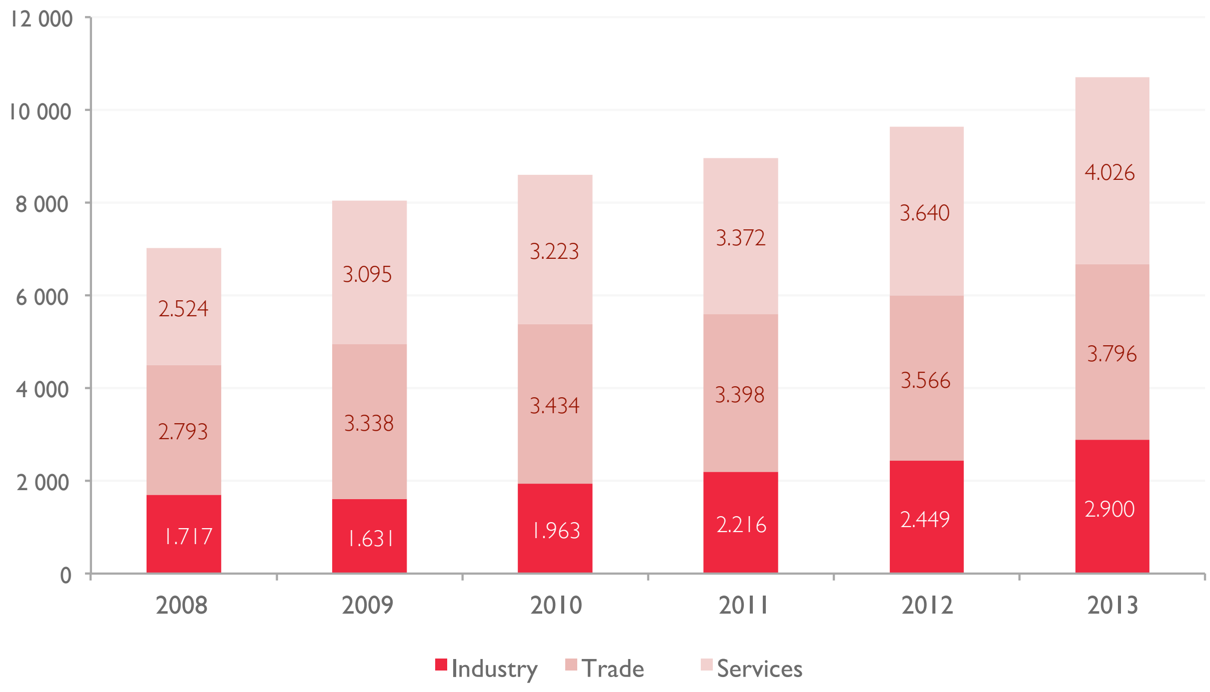
Another way of measuring the number of foreign companies present and active in Spain is through the data offered by the National Statistics Institute (INE - Instituto Nacional de Estadística), and its Estadística de Filiales de Empresas Extranjeras (FLINT). This provides more information than the Registro de Inversiones, but limits its focus to Industry and the Services sector[6]. According to its latest data, there were 10,772 foreign subsidiaries in Spain in 2013, 11.05% more than in the previous year, representing roughly 0.53% of the total number of companies in Spain in the sectors covered.

In spite of the country's recession in recent years, the number of foreign subsidiaries has increased without a break from the 7,033 companies registered in 2008, by a compound annual growth

6. The INE focuses its studies on those companies with activities included in sections B to E (industrial), G to J and L to N (non-financial market services) of the NACE-09; thus, they don't include companies focused on financial and insurance activities, construction and agriculture, livestock and fishing. From a geographical perspective, they don't include data of Ceuta and Melilla.

rate of 8.8%, demonstrating their long term and deepening commitment to the country. This positive trend is especially meaningful if we compare it to the negative growth registered when all companies in Spain are analysed over the same period. These negative data are procyclical, in line with recession expectations (with an annual drop of -1.67% among all companies, and an even greater drop of -2.56% if we exclude companies with no salaried employees[7], although the global figures include additional sectors badly affected by the recession that are not included in FLINT). By area of activity, this growth in the number of subsidiaries has been higher in Industry (11.05%) than in Services (9.79%) or Trade (6.33%).

Figure 6: Changes in the number of foreign subsidiaries by activity



Source: Instituto Nacional de Estadística, 2016

The activities that show the greatest number of companies are Wholesale trade (25.5% of the total number of subsidiaries) and Professional, Scientific and Technical activities (11.1%).

Most of the companies controlling subsidiaries in Spain are located in Europe (80.9%), particularly in the Euro Zone (61.1%), while 13.6% are located in America, in particular in the United States (11.3%); the local presence of companies coming from Asia is still rather low, with just 4.8% of the subsidiaries.

Regarding individual economies, the countries with the highest number of subsidiaries in Spain are Germany (16.9% of the total), France (14.2%), the United States (11.3%) and the Netherlands (9.6%). There is a strong concentration in the home country of these subsidiaries, with the top ten countries accounting for 80.5% of the total number of subsidiaries and 86% of the turnover generated by them.

7. INE – National Institute of Statistics, Directorio Central de Empresas

2. Turnover and results

If we analyse the size of the aforementioned foreign subsidiaries in 2013, we observe that 4,680 of them are micro-SMEs (43.6%), 5,173 are SMEs with 10 or more employees (48.2%), while only the remaining 8.1% are large companies, with over 250 employees. These foreign subsidiaries represent 0.25% of the total number of micro-SMEs in Spain in the given sectors, 4.68% of the SMEs with more than 10 employees, but 34.31% of the large companies, which partially explains why their impact in most of the economic variables we will analyse throughout this report is considerably higher than one might a priori expect given their reduced number. Nevertheless, size is not the only factor involved, and as the evidence in other countries suggests[8], these foreign subsidiaries also have a stronger propensity to innovate and usually have a more qualified labour force than domestic companies, especially when those companies have no international exposure.

> In spite of the recession, the turnover of foreign subsidiaries in Spain has enjoyed positive growth, with an increase in their importance in the overall economy since 2008

The following table offers a summary of the main variables associated with the activity of foreign subsidiaries in Spain. As can be seen, the contribution of these subsidiaries to total turnover in Spain is significant - between 22% and 30% - depending on the variable observed. In 2013, foreign company turnover reached €434.4 billion or 28% of the country total.

Table 1: Main indicators by activity, 2013, Millions of Euros

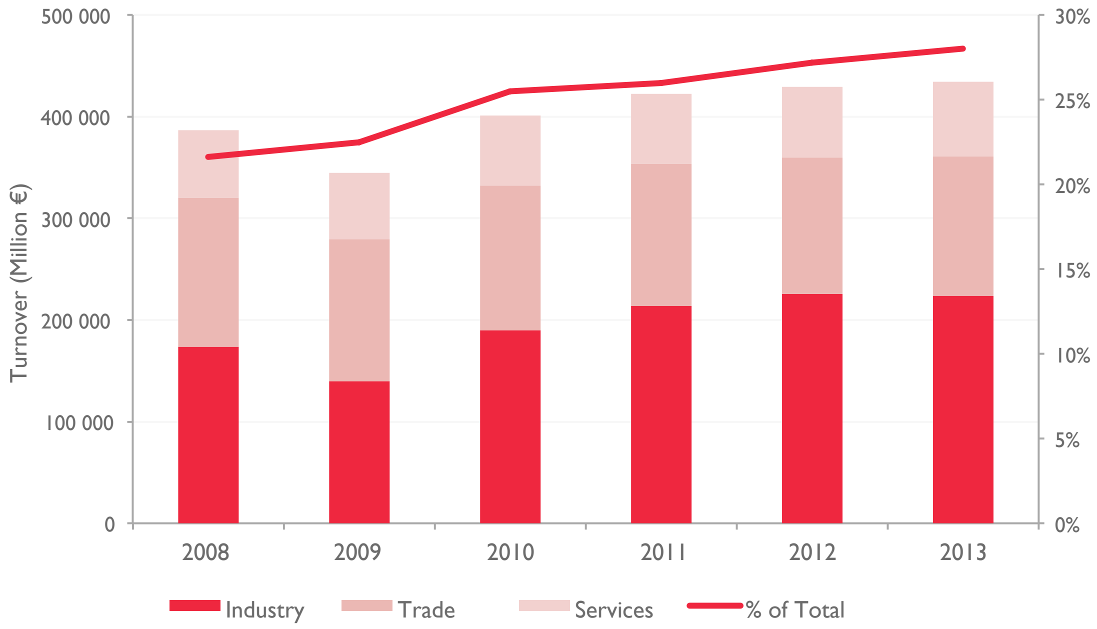
	Spain	% ES	Industry	Trade	Services
Turnover	434 422	28.0%	223 844	136 906	73 672
Production Value	289 756	29.6%	202 863	36 864	50 029
Value added at factor cost	86 346	22.4%	40 197	18 616	27 533
Purchases and projects developed by other companies	294 015	29.9%	158 266	103 216	32 533
Labour expenses	52 927	22.4%	21 782	13 268	17 877
External Services	61 243	28.5%	27 895	17 078	16 269
Gross investment in tangible assets	12 450	25.2%	7 174	1 958	3 317
Total operating revenues	446 520	28.0%	229 346	140 297	76 877
Total operating expenses	428 747	28.3%	219 025	136 516	73 206

Source: INE, Statistics for foreign subsidiaries in Spain, 2016

Despite the recession and associated difficulties, turnover has increased by 12.4% since 2008, representing a compound annual growth rate of 2.4%, versus the strong decline of this indicator in the overall economy in the period (-13.3%). The weight of the turnover by foreign subsidiaries in Spain against the total has risen from 21.6% in 2008 to 28.0% in 2013.

8. Rodríguez, A. y Trello, P. (2014): "Impacto de la Inversión Exterior directa sobre la productividad y el empleo del sector manufacturero español (2001-2010)", Banco de España, Dirección General del Servicio de Estudios.

Figure 7: Turnover of foreign subsidiaries in Spain by activity, Millions of Euros



Source: INE, Statistics for foreign subsidiaries in Spain, 2016

The presence of foreign capital in the Spanish economy is also relevant in terms of Total Value Added, representing 22.43% of the total in 2013, ranging from 16.21% in Services to 32.31% in Industry. As with turnover, the share of foreign subsidiaries in the Total Value Added has risen 38.5% since 2008.

Regarding sectors, these subsidiaries generate 39.8% of the combined turnover in Industry, 22.2% in Trade, and 19.9% in Services. A breakdown of these areas highlights some areas of activity where the share of these foreign subsidiaries is particularly relevant, such as Transport equipment (83.9%), Chemical and Pharmaceutical Industry (54.7%) or Electronic, Electrical and optical equipment (51.4%). In absolute terms, the highest turnover is found in Extractive industries, Energy, Water and Waste (15.4% of the total turnover of all subsidiaries), followed by Transport equipment (12.3%).

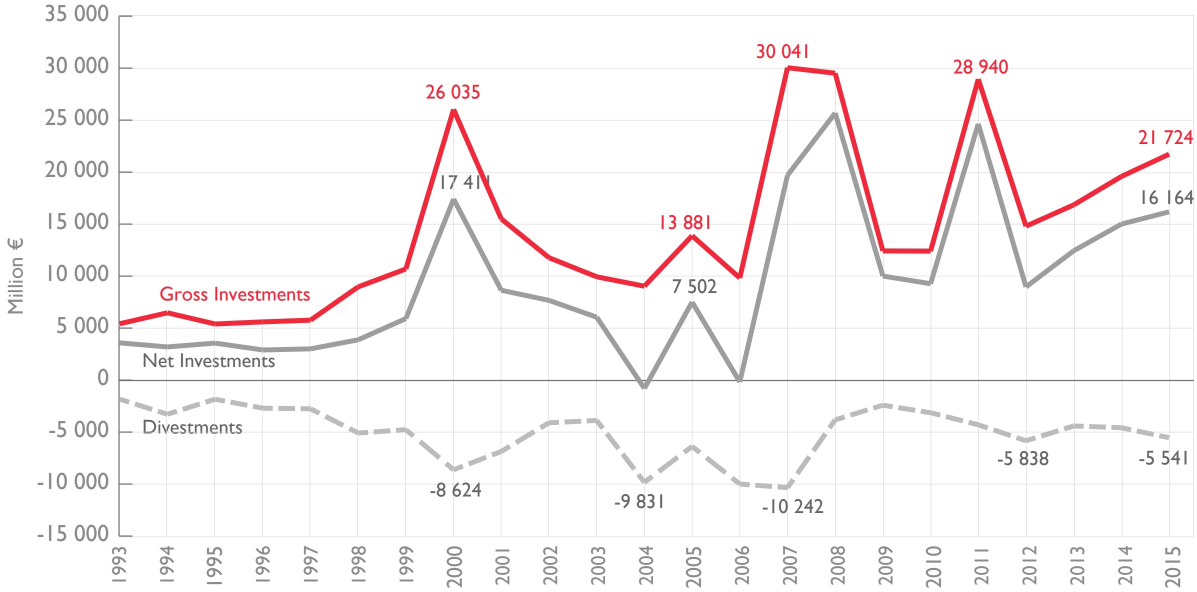
There is a correlation between the countries with the highest number of subsidiaries in Spain and those that generate the highest turnover, namely: France (18.9%), the United States (14.5%) and Germany (13.0%).

3. FDI Inflows and Stock

Faithful to their nature and long term interests, and despite the natural fluctuations linked to the presence or absence of large-scale operations in a given period, FDI inflows into Spain have been significantly more stable than other forms of foreign investment and provide a good indicator of the temporary confidence of foreign investors in the country. FDI inflows into Spain registered a strong drop following the most recent financial crisis, in line with the descent at global level observed in the more developed economies. This was coupled with the absence of large-scale corporate investments along the lines of those registered in 2007 and 2008 but inflows received by Spain have gradually recovered since the minimum reached in 2009 (€12.42 billion) and continued to grow in 2015 (excluding ETVE operations: €21.72 billion or 10.95% more than the previous year). This figure is above the average since the year 2000 (€17.64 billion) and the fifth highest record since then. It represents 2.01% of national GDP for the year and equates to an investment per capita of €467.7.

In this current growth cycle, maximum values were reached in 2011 (€28.94 billion), thanks to large investments made that year linked to mobile licences in the Telecommunications sector, and to the Air Transport sector (merger of British Airways and Iberia). Since 2009, foreign investors have been especially active buying national businesses and real estate assets in difficulties, although greenfield investment, especially expansions, still prevail.

Figure 8: Changes in gross and net productive FDI inflows in Spain, Excludes ETVE, Millions of Euros

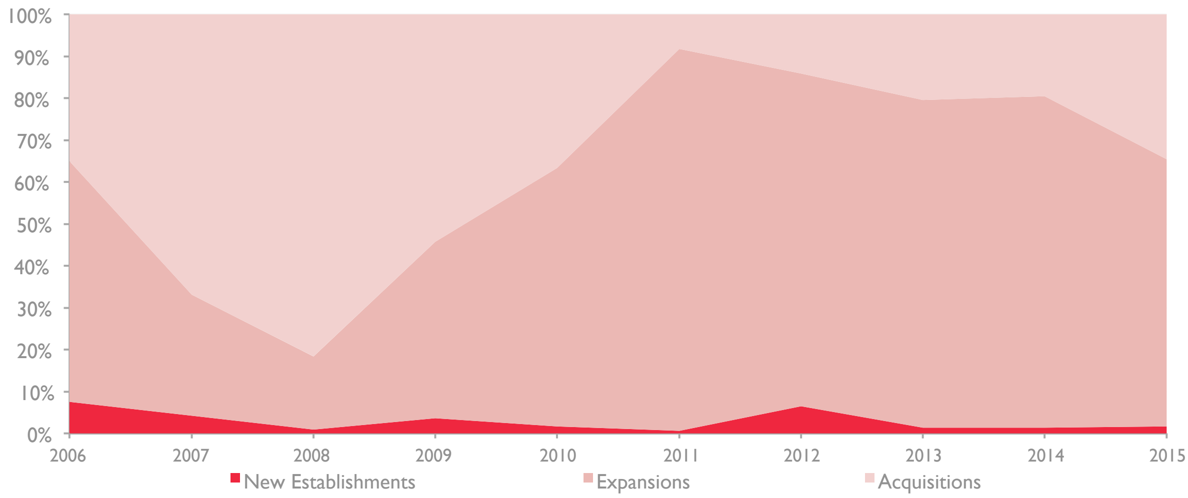


Source: Registro de Inversiones, March 2016

In net terms, that is: including divestments, growth has been slightly lower in 2015 (+7.89%), reaching €16.18 billion. This increase in the level of divestments over the year is not a cause for concern as the figures relate to a series of specific relocations of asset-holding companies to the Netherlands (a country whose fiscal regime is attractive to such companies regardless of their nationality) and to the debt repayment of a large construction company.

These data offer interesting insights into types of operation. Greenfield operations are preferred for productive investments and account for close to 80% of total investment in recent years, although this figure fell to 65.4% in 2015. Among greenfield investments, expansions prevail over new establishments. Foreign companies with a presence in Spain and first-hand knowledge of the existing opportunities, are the most inclined to invest. This implies that when a foreign investor acquires a local company that finds itself – through no fault of its own – in difficulties and even though that acquisition might only entail a change in the ownership of existing assets, without adding anything to the stock, the transaction might nonetheless end up generating a new, additional investment. Such acquisitions played a major role in 2007 and 2008 with the takeovers of Endesa and Altadis, but there has been an absence of large scale operations since then in the country (contrary to what has happened worldwide, where the increase in cross-border mergers and acquisitions explains the global growth of FDI flows in recent years, linked to the reconfiguration of large corporations and an increase in their appetite for expansion).

Figure 9: Gross Foreign Direct Investment by type of operation, Excludes ETVE, Percentage of total



Source: Registro de Inversiones, Foreign Direct Investment Flow Reports, 2007-2015

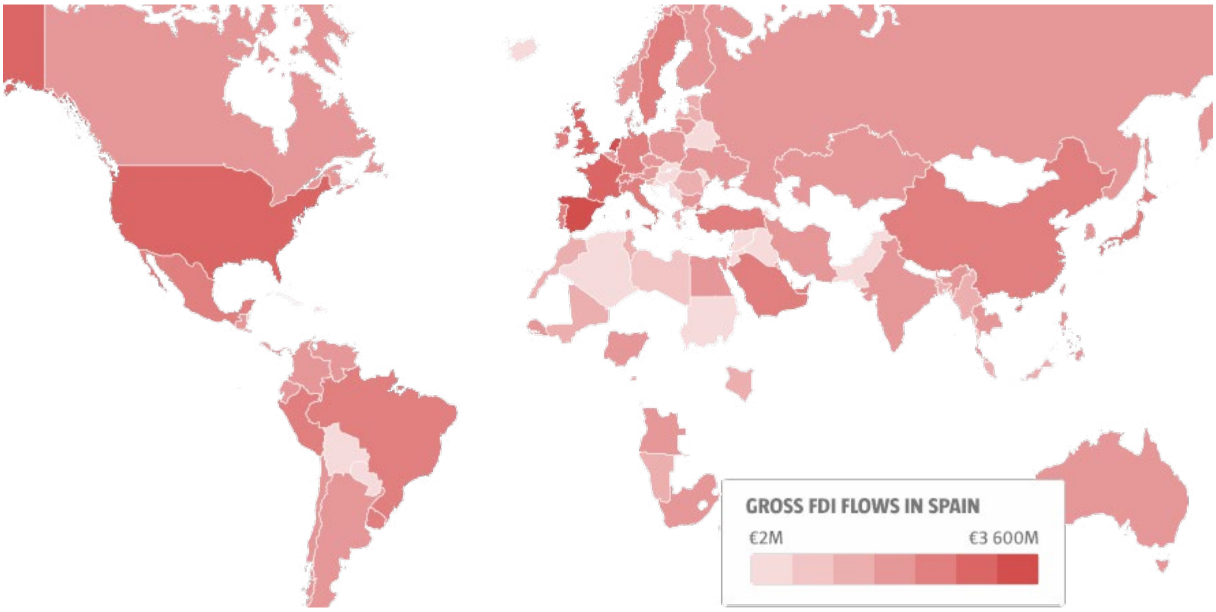
> Europe and the United States have been the main investors between 2009 and 2015

As to the source of these investments, if we define the source country as the ultimate country (the furthest to which holdings can be traced back)[9], and focusing only on productive investments, Spain continues to receive FDI inflows mainly from OECD members. Other European countries are the principal source, accounting for 73.35% of the inflows received in 2015, slightly above their average since 2009 (69.9%). Most correspond to countries within the EU-15, although an increase in geographical diversification has reduced their share from the levels reached in periods such as 2004-2008, when they accounted for 85% of investments. North America, notably the United States, was responsible for 7.58% of investments in 2015, FDI inflows from Latin America still have plenty of room for growth

9. That is, the home country of the ultimate holder of the investment, the country where the ownership chain ends.

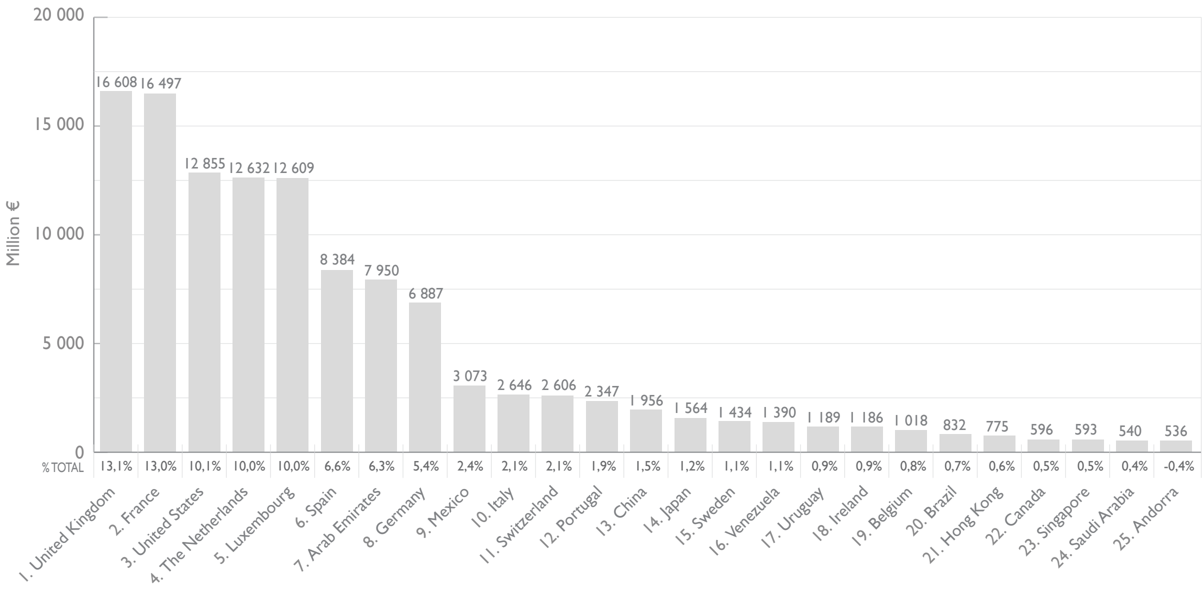
and were adversely affected in 2015 by economic instability in the region. Asia and Oceania have generated close to 10% of the inflows in 2015, slightly below their average since 2009. Investments from Africa are still minimal.

Figure 10: Top investors in Spain, Gross FDI inflows, Excludes ETVE



Source: Registro de Inversiones, March 2016 (CartoDB attribution)

Figure 11: Top investors in Spain: Gross FDI Inflows, 2009-2015, Excludes ETVE, Millions of Euros



Source: Registro de Inversiones, March 2016

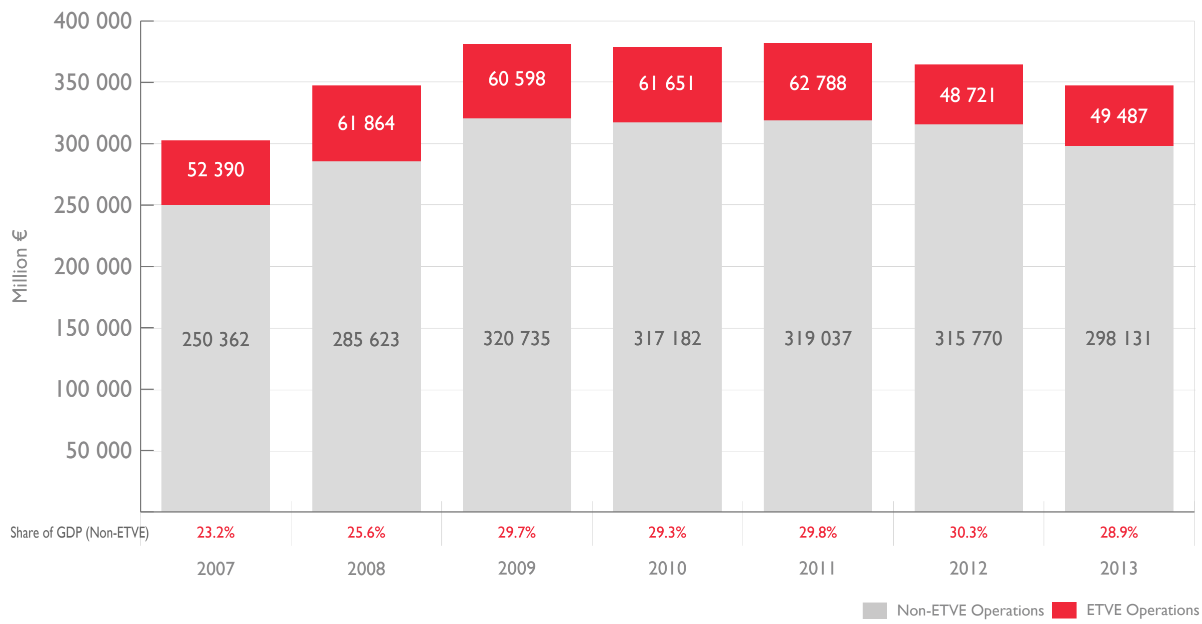
Gross productive FDI inflows into Spain have tended to concentrate in the Services sector (54.8% of inflows between 2009 and 2015, slightly below the 60.6% registered between 2000 and 2008), followed by Industry (31.0%) and Construction (8.8%). Investments in the Primary Sector account for a minimal share, in line with most developed countries[10]. Foreign investment flows have changed significantly and their effect on the economy is far from trivial. As we shall see in the following chapters, FDI flows contributed to an increase of 3.96% in national GDP between 2006 and 2013, helped total employment to rise by 5.25% and stimulated an increase of 1.89% in salaries, while supporting a reduction of 3.15% in unemployment rates[11].

FDI Stock

If FDI inflows can be seen as an indicator of the temporary confidence of foreign investors in the country, the levels of FDI stock at any given time can be seen as a measure of the long-term confidence of such investors in the local economy. At the end of 2013, according to figures from the Registro de Inversiones, Spain held €347.62 billion of FDI stock of which €298.13 billion amounted to productive investment[12]. This followed a year-on-year decline of -4.85% and -5.92% respectively but even so, these figures amounted to 33.7% and 28.9% of national GDP for the year, or €7,439 and €6,380 per capita.

As can be seen in the following graph, following a period of relative stability between 2009 and 2011, in 2012 levels of FDI stock started to decline by almost -5% year-on-year, mainly as a result of a reduction in the capital and finance provided by foreign investors to their local subsidiaries. Additional pressure was caused by secondary factors such as depreciation of investments, exchange rate fluctuations, and changes in FDI classification, among others.

Figure 12: Evolution of FDI Stock in Spain, Millions of Euros



Source: Registro de Inversiones, March 2016

In 2013, the United States was the leading foreign investor in Spain, with 15.1% of total FDI stock, followed by Italy (12.4%), France (11.3%), Germany (10.5%) and the United Kingdom (10.2%). Mexico was the leading country in Latin America (6.5% of total FDI stock in Spain), while China (2.4%) has overtaken Japan (1.2%) in recent years as the top Asian investor in the country.

10. Data from the Registro de Inversiones doesn't include profit reinvestment, investments in real state nor intra-company financing
11. Gómez Gómez-Plana, A. y Latorre, M.C. (2014): "Efectos de la IED recibida sobre la economía española", in Rafael Myro (dir) España en la Inversión Directa Internacional, IEE., pp. 177.

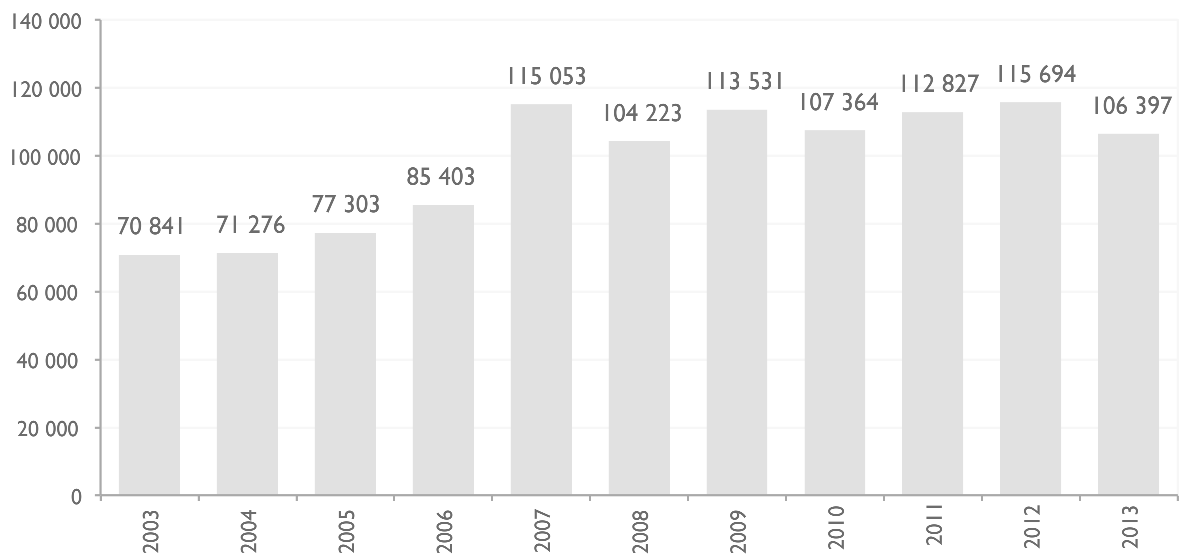
> Levels of FDI stock can be seen as a measure of the long-term confidence of foreign investors in the local economy

From a sector perspective, the effect of substantial one-off investments can be felt in the statistics. Examples include Electric Energy Supply (16.9% of stock), Manufacturing of other Mineral Products (10.0%, mainly owing to Cement manufacturing), Wholesale (6.2%, most of which reflects Pharmaceutical products and fuels), Telecommunications (4.7%) and Financial Services (4.7%).

Tangible Fixed Assets

In countries such as Spain, where registered foreign investment suffers from a marked 'Headquarters' effect', which tends to favour the regions of the main capitals, it is worth analysing the information we can obtain from tangible fixed assets, a variable that offers a broader perspective regarding where the investments are making an impact. Tangible fixed assets are those durable assets that have a material or physical form, such as machinery, buildings and land, which foreign companies allocate to the development of their activity in Spain, and they represent roughly 30.7% of total stock.

Figure 13: Changes in foreign tangible fixed assets in Spain, Millions of Euros



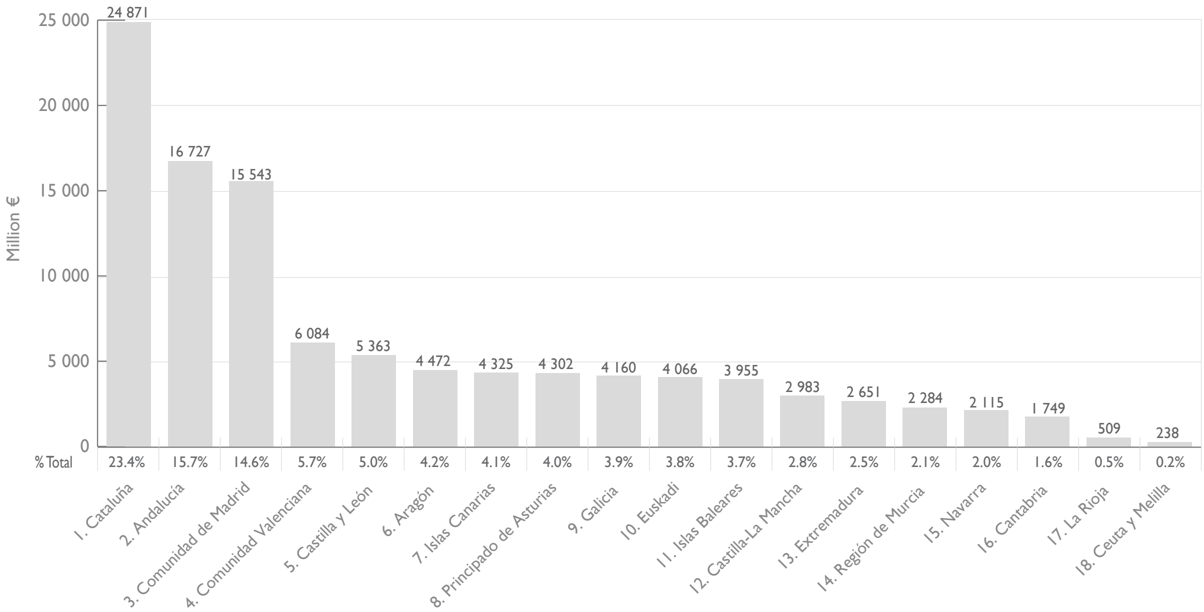
Source: Registro de Inversiones, Informes Posición de la Inversión Directa, 2004-2014

The next graph shows the regions where foreign companies in Spain hold tangible fixed assets, regardless of the location of their national headquarters. Owing to the nature of these assets,

12. Excluding ETVEs or Empresas de Tenencia de Valores Extranjeros, holding companies established in Spain for the management of companies in foreign countries in accordance with fiscal optimization strategies within the same corporate group.

figures are typically higher in those regions with a stronger focus on the Industry sector than in those other regions focused on Services. By definition, financial and intangible assets are excluded from the following graph.

Figure 14: Tangible fixed assets by region, 2013, Millions of Euros



Source: Registro de Inversiones, 2015

Table 2: Regional distribution of FDI stock and tangible fixed assets, 2013

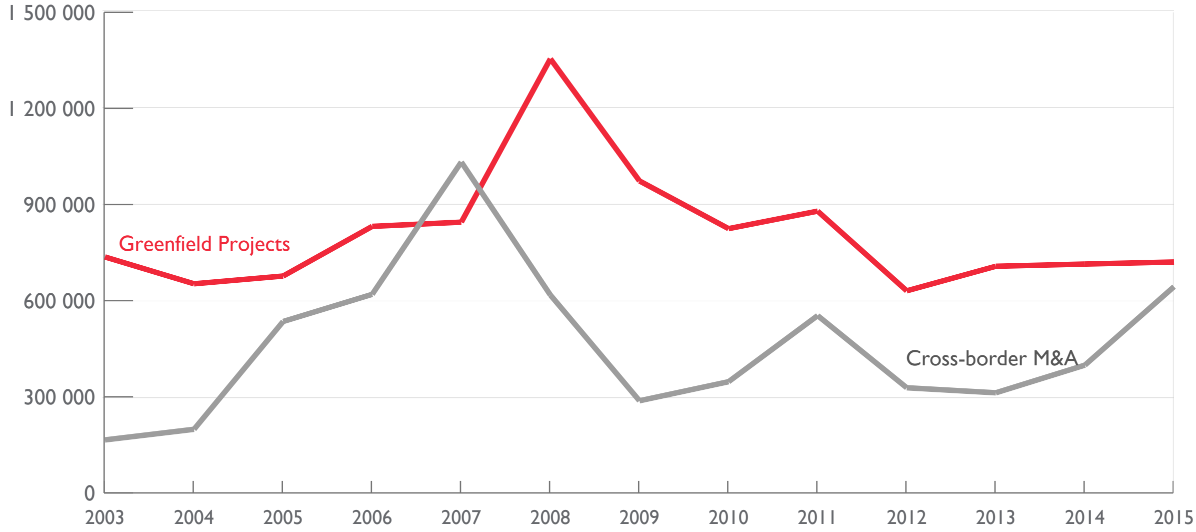
	FDI Stock (M€)	% FDI Stock	Tangible Fixed Assets (M€)	% Tangible Fixed Assets	Headquarters' Effect
Comunidad de Madrid	185,373	62.2%	15,543	14.6%	4.3
Cataluña	49,810	16.7%	24,871	23.4%	0.7
Principado de Asturias	12,960	4.3%	4,302	4.0%	1.1
País Vasco	11,221	3.8%	4,066	3.8%	1.0
Galicia	7,236	2.4%	4,160	3.9%	0.6
Andalucía	6,818	2.3%	16,727	15.7%	0.1
Islas Baleares	6,242	2.1%	3,955	3.7%	0.6
Comunidad Valenciana	4,621	1.5%	6,084	5.7%	0.3
Cantabria	3,600	1.2%	1,749	1.6%	0.7
Aragón	2,601	0.9%	4,472	4.2%	0.2
Islas Canarias	1,782	0.6%	4,325	4.1%	0.1
Castilla y León	1,367	0.5%	5,363	5.0%	0.1
Navarra	1,299	0.4%	2,115	2.0%	0.2
Castilla-La Mancha	1,281	0.4%	2,983	2.8%	0.2
Región de Murcia	1,150	0.4%	2,284	2.1%	0.2
La Rioja	496	0.2%	509	0.5%	0.3
Extremadura	269	0.1%	2.651	2.5%	0.0
Ceuta y Melilla	3	0.0%	238	0.2%	0.0

Source: Registro de Inversiones, 2015
The 'Headquarters' effect' looks at the relationship between FDI stock and tangible fixed assets, measured as the ratio between the respective national shares for each region

4. Greenfield FDI investment projects

According to the data released by UNCTAD, based on information provided by The Financial Times through fDi Markets, Spain was the preferred destination for 2.18% of all greenfield[13] FDI projects announced between 2003 and 2014 worldwide, measured by value. Spain´s corresponding share in Europe was 12.35% for the same period. The total value of projects announced in the period was $169.2 billion, an annual average of $14.1 billion, shared between 4,421 projects (averaging 386 per year, with a value of $38.3 million).

Figure 15: Value of cross-border M&As and announced Greenfield FDI projects, Millions of USD



Source: UNCTAD 2015 for cross-border M&As, fDi Markets for Greenfield FDI projects

> Tangible fixed assets tend to concentrate in those regions with a stronger Industrial sector, with Catalonia, Andalusia and Madrid standing out

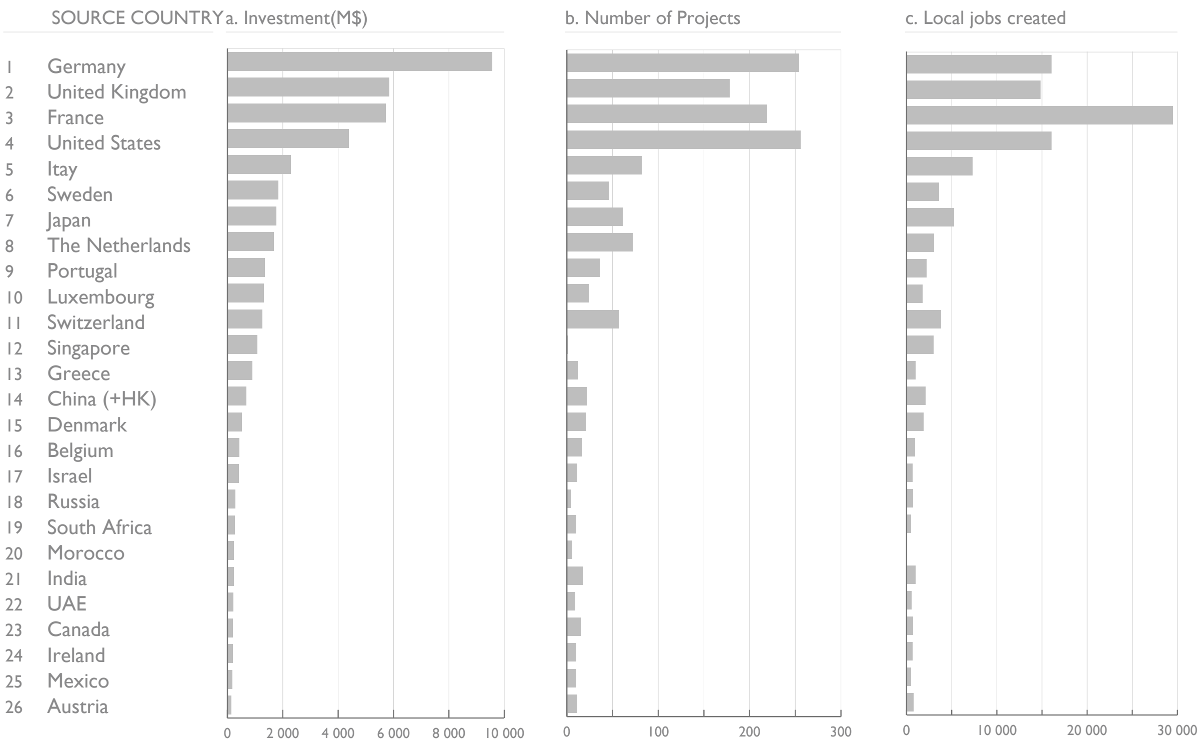
In 2014, following a rebound in investment appetite in 2013, there was a decline in worldwide FDI, both in the number of projects (-5.2%) and in their estimated value (-1.7%). Spain, however, managed to attract 371 Greenfield FDI projects to occupy eleventh place worldwide and third in Europe, after the United Kingdom and Germany. Measured by the estimated value of these projects ($10,776 million), Spain ranked nineteenth in the world that year, and second in Europe, after the United Kingdom.

Between 2012 and 2015, fDi Markets identified 1,557 Greenfield FDI projects in Spain, with an estimated value of $44.64 billion ($11.16 billion on average per year).

13. fDi Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment, validating most of the information with direct company sources. They don't include information on the equity shares of investors, which suggests that their data might include investments that wouldn't qualify as FDI in strict terms. Data are collected as announced by the companies, complemented with proprietary econometric model estimates, but might not be updated in successive years.

These have generated over 122,400 jobs in the country (30,600 per year). The value of the investments received from Germany, the United Kingdom, France and the United States tops the rankings, although France leads the field in terms of the employment generated by these projects.

Figure 16: Greenfield FDI projects in Spain, by source country, 2012-2015

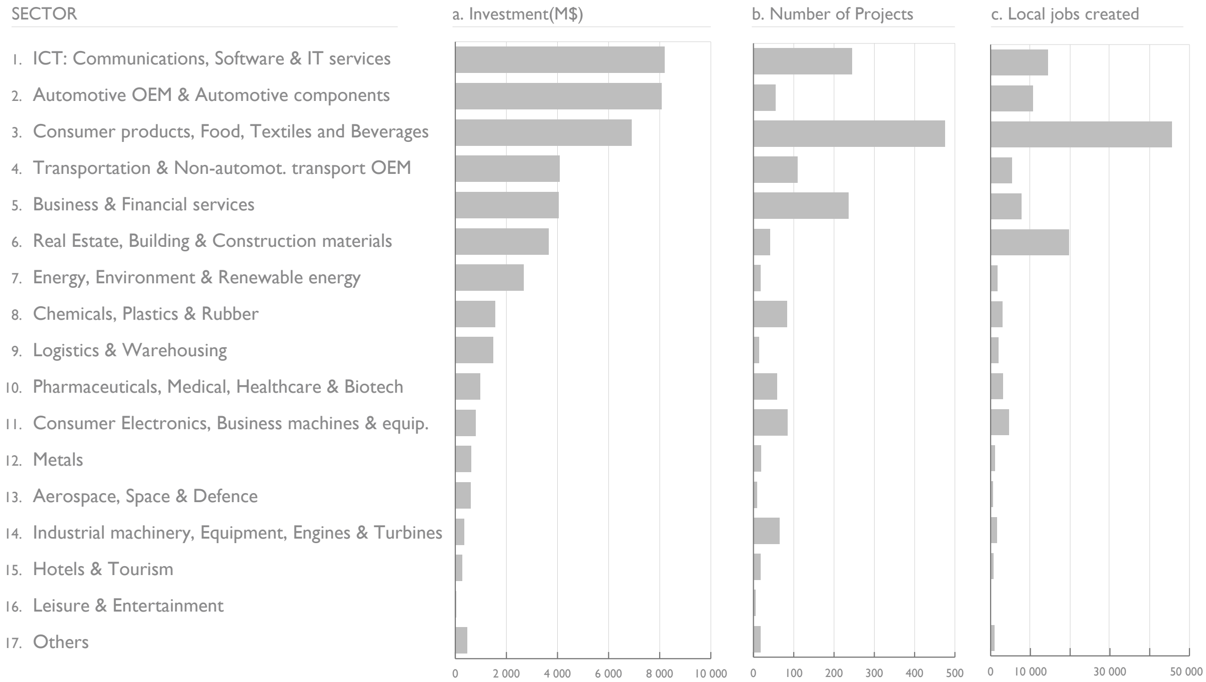


Source: fDi Markets, 2016 (via ICEX España Exportación e Inversiones)

In terms of sector, investments in ICT are noteworthy ($8.18 billion, 14,400 jobs), closely followed by the Automotive sector ($8.07 billion, 10,621 jobs) and Consumer products ($6.89 billion, 45,524 jobs). The other important sector for employment generation was the other important sector for employment generation was the Real Estate and Construction sector with almost 19,700 new jobs in the period and a rebound in the value of the investments in 2015.

> Between 2012 and 2015, over 1,557 Greenfield FDI projects were registered in Spain, creating over 122,400 local jobs

Figure 17: Greenfield FDI projects in Spain, by sector, 2012-2015



Source: fDi Markets, 2016 (via ICEX España Exportación e Inversiones)

5. Financial provision

Spain is an open economy, with a balance of payments that shows a series of imbalances and high vulnerability, linked to its growth model based on strong internal demand and an excessive reliance on foreign savings. The country's energy dependence and the limited diversification of its exports result in a current account that tends to be in deficit, with the balance of services unable to compensate for the trade deficit.

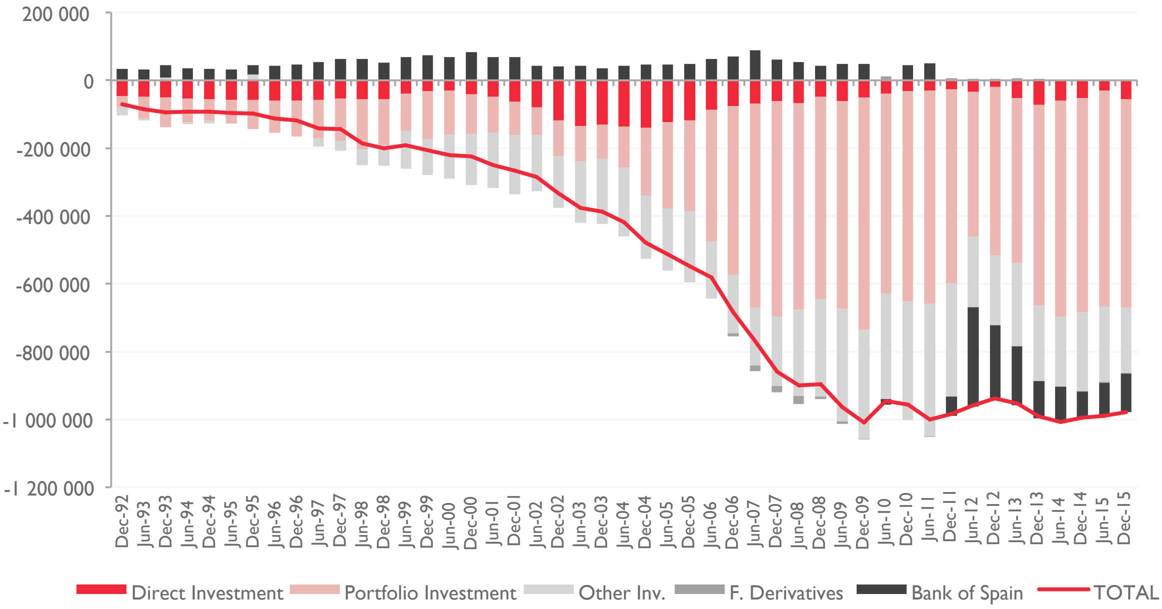
> "Spain has been the preferred destination for 2.18% of the value of all greenfield FDI projects announced between 2003 and 2014 worldwide"

FDI inflows have often helped Spain to avoid the strangulation it would have suffered from its own lack of capital resources and maintained an active investment environment even when conditions have been tough for those companies trying to access finance. Owing to the significant increase in overseas investment by Spanish companies since the beginning of this century, Spain is now a net exporter of FDI, with its portfolio investments offsetting the financing requirements of its outward FDI positions and growing internal expenditure.

The following graph shows the changes in the International Investment Position (IIP) of the Spanish economy, measured as the difference between the value of its external assets and financial liabilities.

This IIP, together with the Balance of Payments, reveals the level to which the country´s financial position has become more international and the economic relationships between its residents and the rest of the world. Despite efforts to become more international, there is a persistent external debt, with net FDI close to a balanced position in recent years, but portfolio investments negative.

Figure 18: International Investment Position, Millions of Euros



Source: Banco de España, Balanza de Pagos y Posición de Inversión Internacional, April 2016

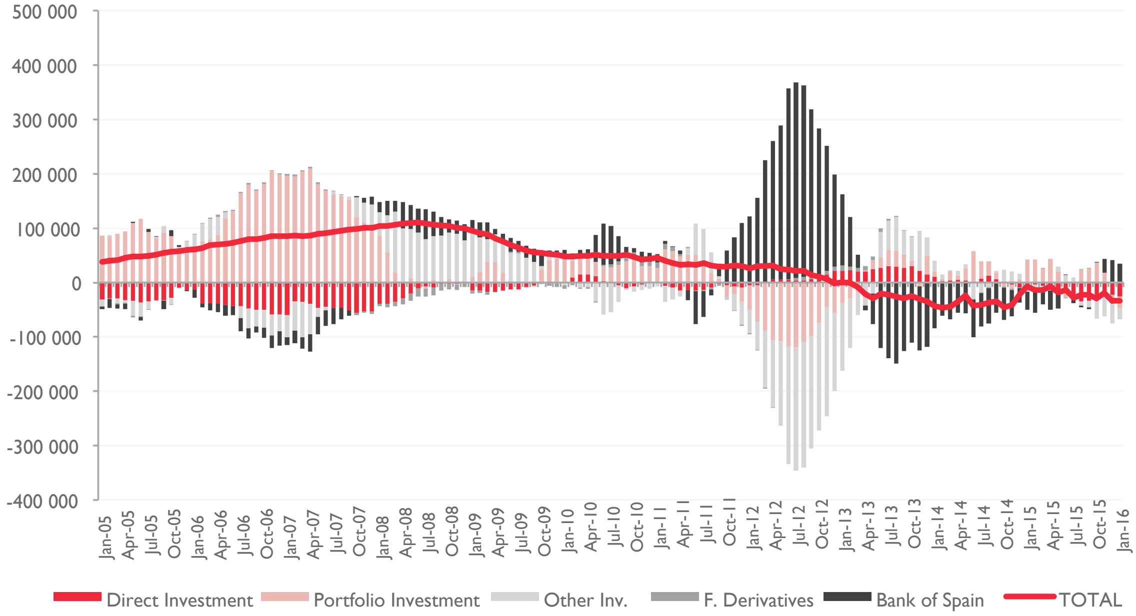
Inward foreign investment flows have depended upon the different phases the local economy has gone through. The excessive growth of the real estate sector at the beginning of the century, after some years of short-term investments, favoured the rise of portfolio investments in both the capital of local companies and in bank debt emissions linked to the sector. This growth in portfolio investments was halted with the arrival of the recession, which discouraged international finance intermediaries. Easy access to foreign savings, especially from the major countries in the Euro Zone, explains the high rates of private indebtedness observed during the period, which in turn were key to financing business growth and a more international outlook for the Spanish economy.

> FDI inflows have helped Spain to avoid the strangulation the economy would have suffered from its own lack of capital resources

After some years of reduced activity, foreign investment inflows started to rebound in 2013, encouraged by an increase in confidence in the local economy and the positive effects of the quantitative easing programmes of the European Central Bank (ECB). The figures relating to recent years are somewhat misleading, as they add the effects of divestments in corporate debt (part of the deleveraging process in the private sector in

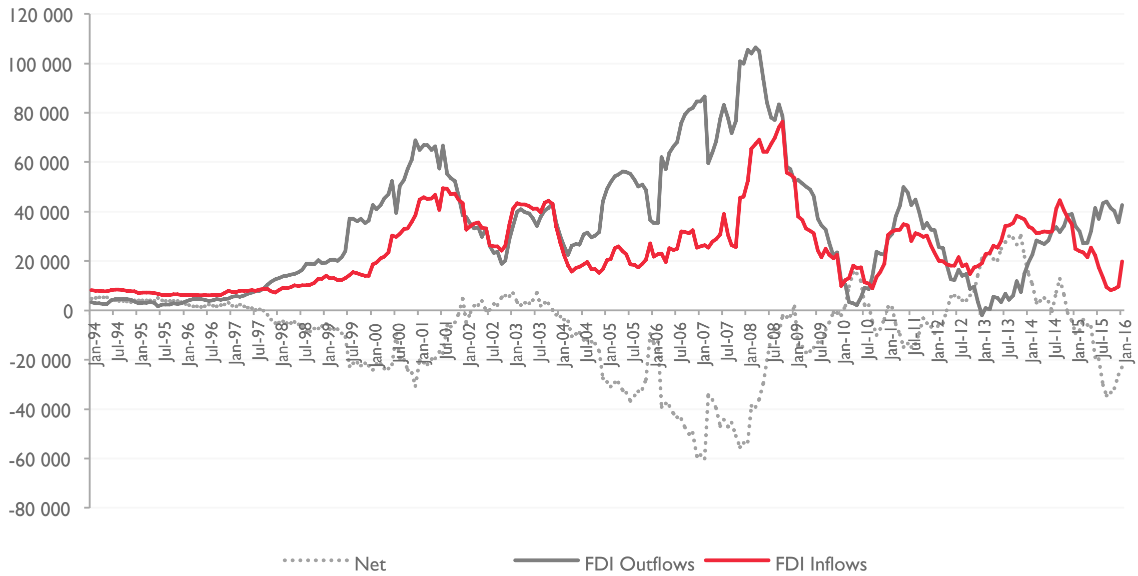
Spain since 2009) to the accounting effects of the repayment of loans, repos and deposits (marked as Other Investments in the figures), that are compensated by the debtor position of the Bank of Spain vis-à-vis the Eurosystem. Despite the excessively alarmist tone of some economists, this seems to show that Spanish banks and companies are taking advantage of the conditions offered by the ECB and its balsamic effect in the market to cancel deposits, loans and repos with foreign banks and other entities, replacing this financing with provisions from the ECB that offer better conditions.

Figure 19: Balance of Payments, variations in liabilities minus assets, Millions of Euros, 12-month accumulated flows



Source: Banco de España, Balanza de Pagos y Posición de Inversión Internacional, April 2016

Figure 20: Evolution of FDI flows in Spain, Millions of Euros, 12-month accumulated flows



Source: Banco de España, Balanza de Pagos y Posición de Inversión Internacional, April 2016

6. Tax Contribution

Foreign Multinational Companies (MNCs) are significant tax contributors worldwide and, despite their impact being more significant in developing countries, their contribution to developed countries is far from negligible. UNCTAD[14] estimates the contribution of foreign affiliates to local government budgets in developing countries at about $730 billion annually. This represents, on average, around 23% of all corporate payments and 10% of total government revenues. In developed countries, these percentages are lower, at roughly 15% and 5%, respectively, underlining the higher dependence of developing countries on foreign corporate contributions.

Given the high levels of competition to attract FDI to their territories, some countries prefer to do without part of that income and reduce some or all of the tax burden for MNCs, with the aim of improving their international positioning and attractiveness levels. The World Bank, through its Paying Taxes[15] product, tries to measure the tax burden that the average multinational company has to face, defined as the ratio between the tax contribution and an adjusted measure of profits, gross of all contribution concepts.

This tax burden tends to be around 35% of commercial profits in developing economies, a figure that rises to 56% in developed countries, taking into account only taxes and social contributions. Nevertheless, if we include other deductions in the analysis, we observe greater convergence of the ratios (50% in developing economies versus 65% in developed economies).

If we focus on the European Union and EFTA in 2014, the total tax rate has remained stable at 40.6%, after a slight reduction from the 41.2% estimated for the previous year, in line with but below the global average. Corporate tax accounted for 12.6% (13.2% in 2013), versus 26.5% (26.4% in 2013) for Employment Taxes and 1.5% (1.6% in 2013) for Other taxes.

Almost twenty economies in the region introduced reforms in 2014 that affected their total tax rates. In Spain´s case, this was a significant reduction in the tax burden (8.1 percentage points). Despite this descent, the fiscal burden in Spain is still above the average in the region at 50.0% (13.3% Tax on Profit, 35.9% for employment-related taxes and 0.8% on other taxes).

Taking into account data from the National Statistics Institute (INE)´s FLINT source for foreign affiliates (see Table 1), we can partially estimate the fiscal contribution of foreign affiliates in Spain, using average tax rates and Social Security contributions. According to these data, in 2013, foreign affiliates contributed more than €19 billion in Social Security contributions[16], which represents roughly 19.5% of the total contribution in Spain for the year (€98.21 billion). Using 12.8% as the effective average rate of personal income tax in the same year, employment-related expenses by foreign affiliates operating in Spain accounted for a contribution of more than €6.7 billion, which represents close to 10% of the personal income tax paid in the year (€69.43 billion) and over 11% of tax on income from employment (€61.25 billion).

14. UNCTAD (2015): "World Investment Report 2015 - Reforming International Investment Governance"
15. World Bank Group & KPMG (2016): "Paying Taxes 2016"
16. These estimates include common contingencies (employer and employee rates), contributions to unemployment, professional training and Fogasa and assume that 30% of staff are paying at the maximum level

03

DOMESTIC EMPLOYMENT AND ATTRACTING TALENT

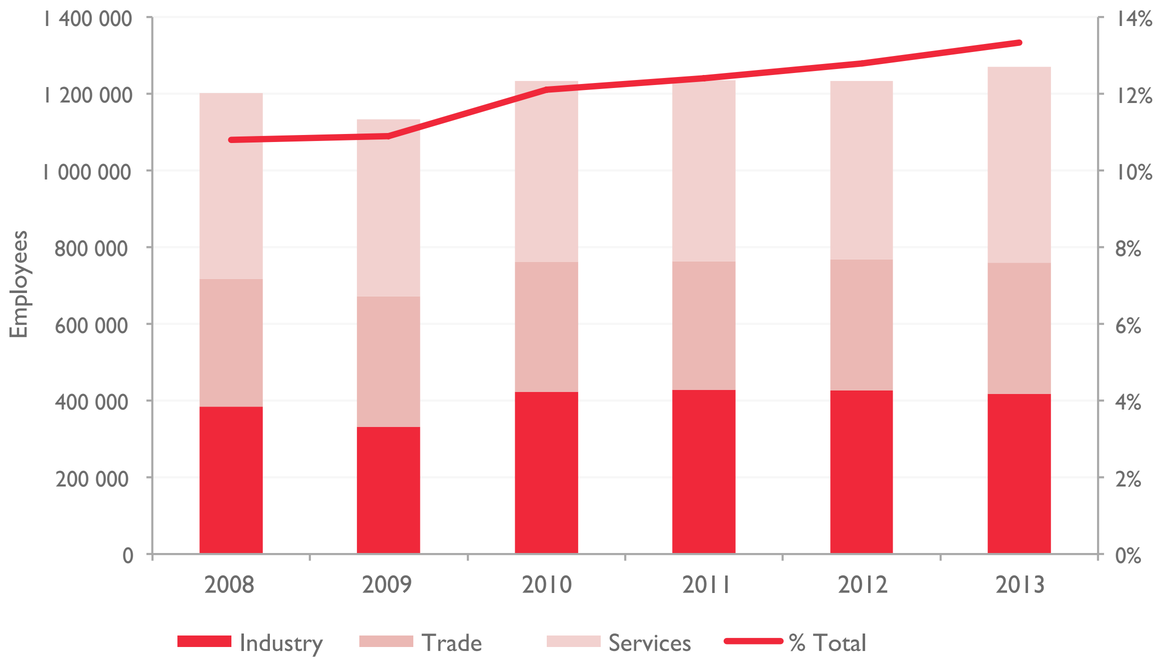
1. Local employment generation

Despite accounting for only 0.53% of the total number of companies in the sectors analysed by INE, at the end of 2013, foreign affiliates employed 1,270,499 professionals in Spain - or 13.34% of the workforce - in those sectors. Foreign affiliates also represent 34.41% of the companies with over 250 employees, and tend to be considerably larger. In addition, it is also estimated that these companies generate close to 1.4 million indirect local jobs[17].

In 2013, foreign companies in Spain employed 2.96% more professionals than in the previous year, and 5.66% more than in 2008. The resilience of these foreign companies throughout the recession has been above the national average and they have managed to recover from the descent in employment registered in 2009. In this same period (2008-2013), the populaiton in employment in Spain decreased by 14.56%, a CAGR of -3.10%, so the relative weight of employment in foreign subsidiaries rose from 10.8 % of the total in 2008 to 13.34% in 2013.

By sector, the number of people employed in foreign companies in Spain totalled 417,017 in Industry (21.41% of total employment in the sector and an increase of 8.5% since 2008), 342,211 in Trade (11.85% of the total, with growth nearing 3%) and 511,271 in Services (10.9%, with similar growth rates to the average for foreign affiliates).

Figure 21: Changes in the number of employees in foreign companies by sector



Source: Instituto Nacional de Estadística, Statistics for Subsidiaries of Foreign Companies in Spain, 2016

Foreign companies employ the most staff in the following sectors: Administrative activities and auxiliary services (15.7%), followed by Transport materials (9.3%) and Retail trade of food, fuel and ICT equipment (8.4%).

17. Indirect employment estimated through simulations with the Input-Output tables of the last year available for each of the productive branches (INE, National Accounting)

> At the end of 2013, foreign affiliates employed 1,270,499 professionals in Spain: 5.7% more than in 2008

When analysed by country of origin, the biggest impact on employment by foreign companies comes from Europe whose companies account for roughly 80% of the jobs (59.0% from the Euro Zone), followed by America (16.4%) and Asia (4.1%). France is the biggest employer (300,480 employees: 23.7% of the total), followed by the United States (181,656 employees: 14.3%) and Germany (171,307 employees: 13.5%). The Netherlands and the UK follow at some distance, with 97,917 and 92,590 local jobs respectively.

Analysed by sector, employment in foreign companies reflects the picture we get from the Registro de Inversiones[18] regarding the employment stock related to foreign investment in Spain. The latter source provides additional information about employment in the Primary and Construction sectors, although, in truth, the foreign presence in both is of little significance (0.57% and 4.58% of employees respectively).

2. Aggregated and sectoral impact of FDI inflows in 2015

From an aggregated perspective, net foreign investment received by Spain between 2006 and 2013 generated a rise of 5.25% in employment levels, particularly in Services[19]. This growth resulted in a reduction of 3.15 points in the unemployment rate, with a marked effect in Trade, Real Estate and other services.

Analysing the results of net FDI in 2015 available alongside all macroeconomic variables[20], we obtain the results shown in the following table which can be interpreted as follows: the first result of the first column corresponds to an impact of 0.04% over national GDP. Thus, it represents the increase in Spanish GDP generated by net investments in the Primary sector. In this same column, the last value shows that FDI in 2015 had an impact of 0.64% over the GDP for the year.

In general, net foreign investment inflows increase the local GDP, while net outflows reduce it. Thus, in 2015, foreign investments in the Food sector made the most positive impact on GDP and employment.

18. The Registro de Inversiones calculates employment figures, turnover and results based on the percentage of foreign ownership in the capital of local companies
19. Gómez Gómez-Plana, A. and Latorre, M.C. (2014): "Efectos de la IED recibida sobre la economía española", in Rafael Myro (dir) "España en la Inversión Directa Internacional", IEE., pp. 177.
20. The framework of analysis used is explained in detail in the corresponding Appendix

Table 3: Changes in the macroeconomic variables caused by net FDI in 2015

	GDP	Salaries	Total Employment	Unemployment Rate*	Wellbeing	Employment/ Net Investment**
Net Investment**	0,04	0,02	0,03	-0,02	0,04	126,47
Primary Sector	0.04	0.02	0.03	-0.02	0.04	126.47
Energy	0.02	0.01	0.01	-0.01	0.02	0.44
Food	1.89	0.63	1.39	-1.14	3.28	860.88
Beverages	0.11	0.11	0.05	-0.03	0.04	-22.36
Textile	0.00	0.00	0.00	0.00	0.00	-4.59
Chemical Sector	0.02	0.02	0.03	-0.02	0.01	-17.41
Base Metals	0.00	0.00	0.00	0.00	0.00	0.05
Metal manufacturing	0.00	0.00	0.00	0.00	0.03	-27.13
Automotive	0.05	0.03	0.05	-0.03	0.06	53.13
Other manufacturing	0.04	0.03	0.05	-0.03	0.05	11.72
Construction	-0.01	0.00	0.01	-0.01	0.05	2.60
Vehicle sales	0.06	0.03	0.07	-0.04	0.04	256.41
Trade	0.13	0.05	0.18	-0.11	0.12	12.16
Air and sea transport	0.00	0.00	0.00	0.00	0.00	0.17
Other transport	0.01	0.02	0.05	-0.02	-0.07	14.25
Telecommunications	-0.01	-0.01	-0.02	0.01	0.00	-2.03
Banking	0.00	-0.01	-0.02	0.01	0.02	-2.16
Auxiliary services (Banking)	0.10	0.27	0.73	-0.24	-1.20	1043.44
Real Estate	0.34	0.15	0.48	-0.28	0.09	82.11
Rental services	0.01	0.01	0.02	-0.01	-0.02	30.78
Professional services	0.05	0.07	0.17	-0.07	-0.16	57.85
Other services	-0.01	-0.01	-0.03	0.01	0.02	-13.44
Public services	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
TOTAL ECONOMY	**0.64**	**0.31**	**0.85**	**-0.51**	**0.45**	**9.24**

** Change in percentage points in the unemployment rate / ** Change in employment (percentage) divided by net investment (in Euros)*

At an aggregated level, the effect of net investment over salaries is positive: around 0.31%. Additionally, net investments in 2015 contributed to 0.85% of total employment in Spain and helped reduce the unemployment rate by 0.51% during the year.

In absolute terms, using these figures and macroeconomic figures for 2015, FDI can be calculated to have generated €6.93 billion of GDP (of a €1.08 trillion total), created 153,800 jobs and removed 1,800 people from the register of unemployment.

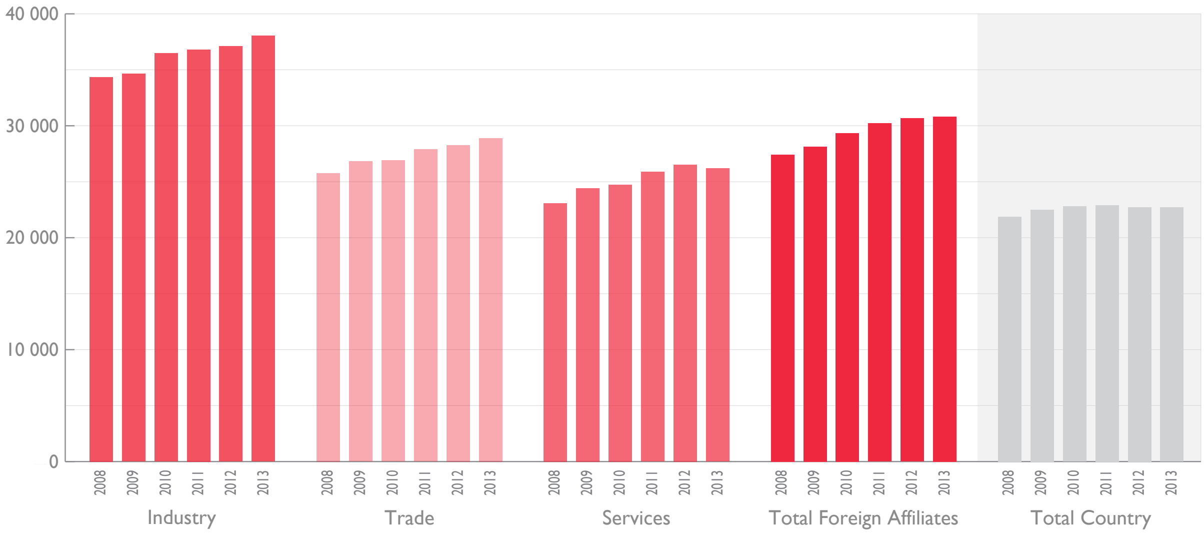
3. Quality of the employment created

Multinational companies in Spain not only create and maintain direct jobs but also have a positive effect on the 'quality' of such jobs. This 'quality' can be measured following multiple vectors, such as wage levels, labour agreements, work schedules, availability and access to training, professional growth opportunities, workplace environment, etc. FDI host countries not only receive training for their population in new tasks, which contributes to the development of the local human capital, but they often benefit from improvements to training policies, salaries, community relationships and at environmental level.

Foreign investment in developed countries tends to be based on determinants beyond the optimization of operating costs, with an increasing focus in sectors of technology content; so one result that can be expected is a positive contribution in terms of the creation of quality jobs or the improvement of the work conditions of acquired local companies. Several studies[21] suggest that, in the major and more mature economies based on services, there is an increase in demand for non-routine positions, following foreign investments that adopt specialization strategies by country (that is, those strategies linked to vertical FDI processes, whereby those segments of the value chain that best fit the advantages of each country are established, as opposed to horizontal strategies that just try to replicate the production of the headquarters in other countries, closer to new target markets).

Owing to their size, multinationals are usually in a position to create more jobs and attract more qualified workers, thanks to their ability to pay higher salaries and the reputation that precedes them[22]. If we consider the data offered by the data offered by the National Statistics Institute, the average salary in foreign affiliates in Spain was €30,814 in 2013, up 12.4% on the corresponding figure for 2008, and significantly higher (+35.8%) than the average salary for the economy overall in the same year (€22,698[23]). Far from destroying jobs during the recession, foreign companies have been able to increase salaries and to widen the gap with average salaries in the country.

Figure 22: Changes in average salaries at foreign companies, by sector, Euros



Source: Instituto Nacional de Estadística, Estadística de Filiales Extranjeras en España, 2016

These higher levels of average earnings in MNCs are closely related to their demand for human capital, which tends to focus on highly qualified profiles (in terms of education level), that is, those professionals needed to help them attain the levels of competitiveness they need to ensure their success in the long term.

Multinational companies, in particular the North American and British ones, have also pioneered the introduction to Spain of quality employment policies and practices that benefit the local labour force and help elevate the level of the rest of the companies in the local ecosystem, both through imitation and through the transfer of professionals and managers to other local companies. These companies have been outstanding in the introduction of novel practices in areas such as performance-related pay, investment in training and professional development, increased flexi-

21. Marcolin, L., S. Miroudot and M. Squicciarini (2016): "Routine Jobs, Employment and Innovation in Global Value Chains", OECD Science, Technology and Industry Working Papers.
22. Arahuetes, A; Steinberg, F. (2013): "La internacionalización como palanca para salir de la crisis", Real Instituto Elcano, 2013.
23. The INE studies the same sectors as the FLINT in their Annual Salary Structure Survey.

bility of working times and conditions, management development programmes, diversity initiatives and the generation of multicultural environments, etc[24]. Foreign companies also tend to formalise a commitment to the environment with widespread corporate social responsibility and environmental management policies.

Generating these exemplary labour conditions and exhibiting sustainable behaviour can be a strategic asset when positioning their brands but these practices are frequently much appreciated by their employees, as shown by various studies in the field[25], whose top spots in the rankings for Spain are consistently occupied by multinational companies, regardless of size (e.g., in the "Great Place to Work" ranking for 2015, over 40 of the 50 best companies to work for in Spain were foreign).

4. Pull effect and mobilisation of international resources

In an increasingly globalisation, competitive and mobile world, the countries and cities that will succeed will be those better prepared to attract, nurture and retain talent, as well as those that can offer that talent the training and development opportunities needed to stay competitive[26]. Foreign multinationals and the diversity that comes with them play a fundamental role in this regard.

> The average salary in foreign affiliates in Spain is 35.8% higher than the average salary for the overall economy

Companies, as they relocate productive investments to different countries, usually have to expatriate international professionals who are specialised in key tasks, particularly when the activity in question is of high added value. These professionals are initially responsible for the management of the activity and for the transmission of the company's know-how and culture to the new local team. Once the operations have been established and consolidated, the company will need to continue attracting talent, local and international, in order to grow the local business. This might result in the establishment of other local operations, related either to multinationals or to companies from auxiliary sectors[27]. Foreign multinationals and their managers in Spain are among the principal champions of the country brand, acting as its ambassadors in their headquarters.

This is not just a one-direction phenomenon, as multinationals can also follow the opposite path. They can help national talent gain more visibility within their own internal structures (in the parent company and in other subsidiaries), contributing to the development of their professional career and offering them greater challenges than the ones typically found in their own country. This effect, together with the acquisition by foreign companies of national enterprises and the increasingly

24. J. Quintanilla, L. Susaeta, R. Sánchez Mangas (2010): "Políticas y prácticas de recursos humanos en el contexto organizativo de la empresa multinacional: Encuesta a gran escala en España", IESE – Fundación BBVA.
25. E.g. Great Place to Work - http://www.greatplacetowork.es/ - 26. Richard Florida (2003): "The rise of the creative class"
27. Fundación I+E (2010): "La I+D+i de las multinacionales en España como agentes del cambio de modelo económico"

international presence of Spanish companies, is helping promote a new breed of Spanish executives to the boards of directors and management positions in multinationals. This, in turn, converts them into key actors when generating a 'pull factor' for national executives who might currently be developing their professional career outside Spain. Their experience, talent and responsibility levels within their groups can act as a lever for persuading the diaspora to return home.

Table 4: Examples of Spanish top managers in foreign multinationals

	Empresa	Cargo
Álex Cruz	British Airways	Presidente
Bárbara Navarro	Google	Directora de Políticas Públicas de Asia Pacífico
Belén Garijo	Merck	Vicepresidenta de Merck
César Cernuda	Microsoft	Presidente de Asia Pacífico
Francisco García	Volkswagen	Vicepresidente Mundial de Compras
Javier García Sanz	Volkswagen	Vicepresidente Global
Javier Oliván	Facebook	Vicepresidente de Crecimiento
Jesús González	Cemex	Presidente Cemex Reino Unido
Joaquín Duato	Johnson & Johnson	Presidente de Negocio Farmacéutico
José Antonio Muñoz	Peugeot	Director de Operaciones en Europa
José Luis Martínez	Primark	Presidente en EEUU
José Manuel Martínez	Esprit	Consejero Delegado
Luis Cantarell	Nestlé	Vicepresidente Jefe de Zona EMEA
Marcos de Quinto	Coca Cola	Director Mundial de Marketing
Mariano Alonso	Timberland	Vicepresidente de Ventas EMEA
Olga San Jacinto	Google	Directora de Alianzas Estratégicas
Patricia Abril	McDonald's	Vicepresidenta de Desarrollo Europa
Pilar Zulueta	Warner Bros	Vicepresidenta Ejecutiva EMEA
Rafael Alonso	Airbus	Presidente de Latinoamérica y Caribe
Ramón Laguarta	Pepsico	Presidente de Europa
Ramón Martín	Visa	Jefe de Ventas
Sol Daurella	Coca-Cola European Partners	Presidenta

Source: SIfdi based on bez.es

5. Improvement of the local attitude towards entrepreneurship

> "Foreign multinationals act as ambassadors of the country brand in their headquarters"

Another indirect effect of the establishment of foreign companies in a territory, especially in the case of those involved in research and development activities, is their impact on the local entrepreneurial ecosystem, from a double perspective. On the one hand, in a country like Spain, where technology transfer networks and processes still need some improvement, multinationals can act as agents that incorporate local entrepreneurship talent and its developments into their value chains. A significant number of large foreign companies operating in Spain are developing support programs for new ventures such as training programmes focused on new technologies, grants and awards, incubators and accelerators, agreements with universities, corporate venture capital funds, etc. These contribute to the development of the local ecosystem, and offer an exit for the most promising initiatives.

On the other hand, according to studies like the Global Entrepreneurship Monitor[28], foreign residents in Spain tend to show greater entrepreneurial drive than the local population, which helps increase the country's total entrepreneurial activity index (TEA). The mere presence of international personnel provokes some imitation and absorption of innovative practices.

28. GEM – Global Entrepreneurship Monitor

04

FOREIGN SECTOR

1. Local incorporation to Global Value Chains

Global Value Chains (GVCs) have, in recent decades, become a prominent feature of the world economy and, in a sense, they define the globalization of the XXI century, involving countries in all levels of development. The production of goods and services tends increasingly to take place where the skills and raw materials needed are available, at a competitive price and quality. The increasing fragmentation of cross-border production has important implications for trade and investment patterns and policies, and offers new growth, development and employment perspectives[29]. Foreign Direct Investment is not just a transfer of capital or a means of accessing production resources at lower prices: it is a way of exploiting a competitive advantage[30].

There are multiple reasons for this phenomenon: changes in the regulatory environment associated with the increasing liberalization of trade and investment, changes in the business environment with new corporate thinking and business strategy trends and, finally, technology and connectivity breakthroughs that have allowed costs to be reduced, in terms both of trade and of the coordination of production networks. Cost reductions in transport and communications that have improved connectivity, coupled with development of the financial markets, have been especially relevant in sectors like textiles and clothing, in the production of electronic components, or in the automotive sector, all of which have long and sophisticated value chains.

The participation of businesses (and countries) in these GVCs offers some clear advantages. On the one hand, they allow companies to enter new markets through their specialization in niche intermediate activities within a chain, a process often accompanied by knock-on benefits in productivity to segments of higher added value in their industries. New processes and compliance with international standards improve their access to external markets, facilitating exports and imports, through intra-company trade, and encouraging the incorporation of new communication technologies. They also enable them to access new financial and capital sources[31].

> "Multinational companies are the main actors within GVCs; their activity has a significant impact in cross-border trade and the global reconfiguration"

GVCs make it possible for countries to specialize in specific activities and develop a competitive advantage, improving productivity and increasing salaries and revenues. These value chains have helped boost interconnectivity between economies, and are a fundamental instrument for the construction of productive capacity which local companies can benefit from. Both buying and selling operations within GVCs (that is, either foreign inputs for export production -"backward" linkages-, or inputs to foreign partners for their export production -"forward" linkages-) offer economic profit, in the form of productivity improvements, export diversification and sophistication[32].

29. OCDE (2013): "Implications of Global Value Chains for Trade, Investment, Development and Jobs", Joint Report by the OECD, WTO and UNCTAD to the G20 Leaders Summit, Saint Petersburg, Russian Federation.
30. Fontagné, L.; Toubal, F. (2010): "Foreign Direct Investment and Business Performance", Analyses Économiques, vol. X-02
31. OCDE (2014): "Global Value Chains: Challenges, opportunities and implications for policy", OCDE, WTO and World Bank
32. Kowalski, P. Et al. (2015): "Participation of Developing countries in Global Value Chains: Implications for trade and trade-related policies", OECD Trade Policy Papers, No. 179

It is nonetheless important to stress that MNCs, and not countries, are the main actors and real coordinators of GVCs, through their investments and the cross-border trade of inputs and outputs taking place within networks of affiliates (intra-company trade), contractual partners and arm's-length suppliers. The fundamental motive is the search for greater efficiency, enhancing profit through process improvement (improvement in production efficiency), product enhancement (greater sophistication of products), functional improvements (via the acquisition of new functions) or even improvements in the value chain (access to new value chains).

The impact of these value chains in cross-border trade is significant. The OECD estimates that they account for some 80% of world trade, where the contribution of local companies is key (around 40-50% of the value added to exports). This implies that foreign investment decisions taken by multinationals have a strong impact on the trade patterns of those countries where they are based with a strong correlation evident between FDI stocks and a country´s degree of participation in GVCs[33]. Countries with a relatively high level of FDI for the size of their economies tend to be more involved in GVCs and to generate more domestic value added from international trade. The presence of foreign subsidiaries in an economy has an impact both on the content of the imports embodied in exports and on participation in international production and distribution networks, defining not only their future trade and FDI patterns, but also their growth opportunities.

How a company participates in GVCs depends to a large extent on the nature of its foreign investments. Greenfield investments for accessing local raw materials in less-developed countries can foster "forward" linkages, whereas investment operations within vertical specialization strategies tend to import intermediate goods for local production and subsequent export. At present, most foreign companies follow horizontal strategies, where most of their production is locally sold in their host or nearby markets.

> Foreign multinationals in Spain are responsible for close to 40% of all Spanish sales abroad

Although multinational companies are more influential in GVCs than countries, the latter play a key role when facilitating and capturing part of their value. GVCs depend on the competence and competitiveness of the local labour force who make all the difference to the success of the investment and whose knowledge is necessary for any local improvements in innovation or capital development. FDI is acknowledged to be very sensitive to bureaucratic and political barriers, and harnessing value through spreading technology, generating new local skills and local improvements requires significant levels of local investment.

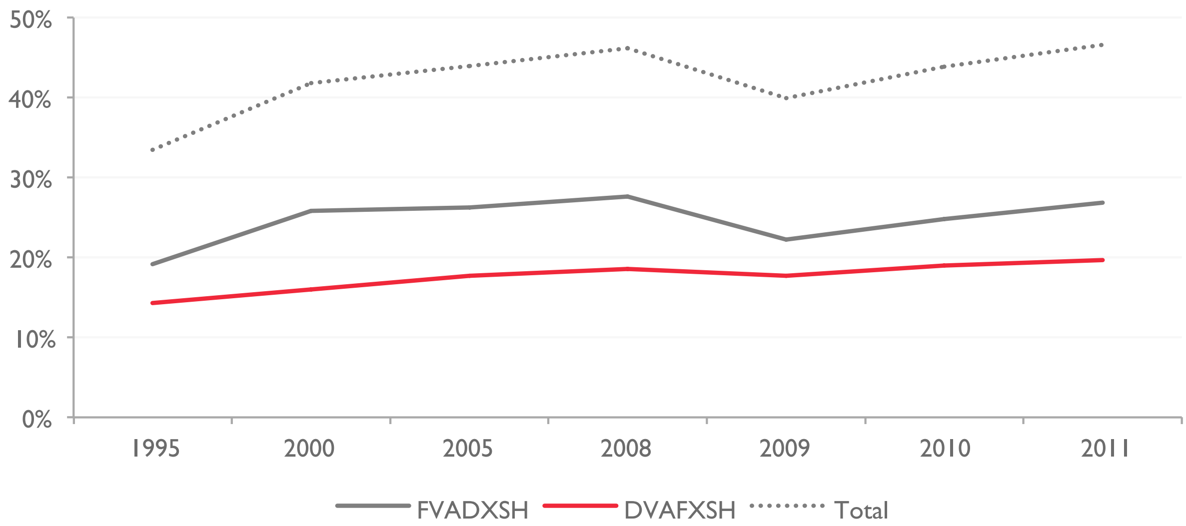
33. UNCTAD (2013): "World Investment Report 2013 – GVCs: Investment and Trade for Development"

An indicator published by the OECD in its Trade In Value Added database (TiVA) provides an insight into Spain´s level of involvement in GVCs[34]. Launched in 2013, it is the first database to compile data on the international trade of goods and services in terms of value added for a large number of countries, most of which belong to the OECD. Although its data are still not very up-to-date, the indicators allow us to analyse to what degree imports by one country are included as exports from other countries. This allows us to follow global production networks and global supply chains and helps us to define the level of integration of a given economy within the GVCs.

According to its latest figures (2011), 26.88% of the value added in gross Spanish exports could be attributed to foreign inputs, offering a measure of the pull-back effect Spanish exports have over imports. In absolute terms, this corresponds to $119.35 billion that year, the highest value to date, with a compound annual growth rate of 10.2% since 1995.

If we analyse the opposite flow, that is, the domestic Spanish value added embodied in foreign exports, it accounts for 19.7% of gross exports, which offers a measure of the forward pull-back effect the exports of the rest of the world have over the national production of inputs.

Figure 23: Domestic value added value embodied in foreign exports and Foreign value added share of gross exports



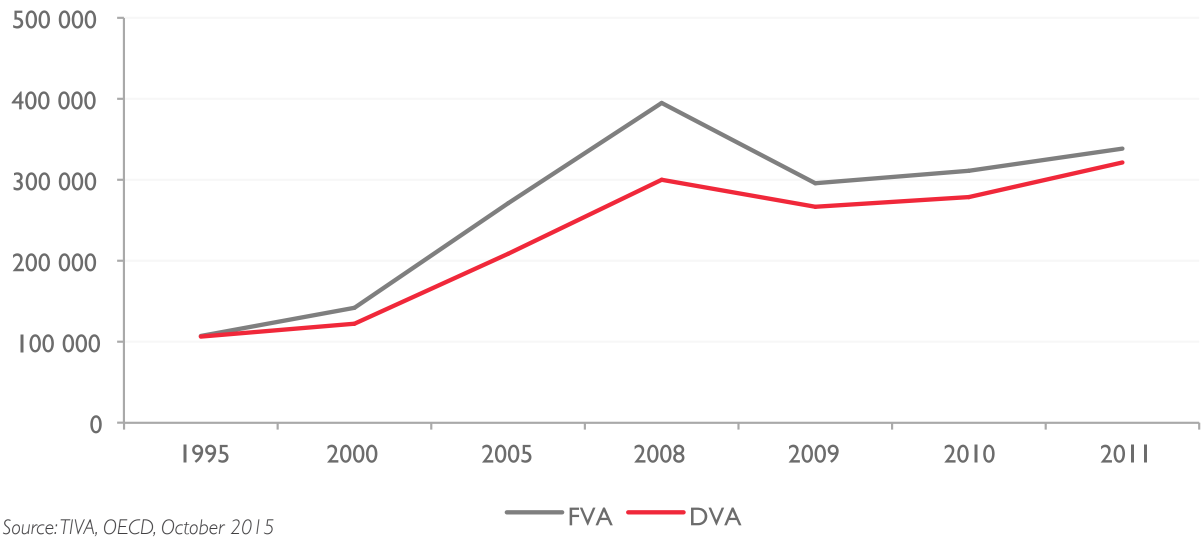
Source: TIVA, OECD, October 2015
FVADXSH: Foreign value added share of gross exports
DVAFXSH: Domestic value added embodied in Foreign exports as share of gross exports

Taking into account both figures, we can conclude that the participation of Spain in 2011 in global value chains (46.58%) is similar to the rates for other European economies with a similar level of economic development such as Italy, the UK or France. They are slightly lower than the rates for Germany and Portugal, and well below the figures of smaller and very internationalized economies like Ireland, Belgium or the Nordic countries, all closer to 60%.

This database also allows us to analyse the domestic value added embodied in foreign final demand, and vice versa:

34. OCDE – Trade in Value Added http://stats.oecd.org/Index.aspx?DataSetCode=TIVA2015_C1

Figure 24: Value added embodied in final demand, Millions of USD



Source: TIVA, OECD, October 2015
FVA: Foreign value added embodied in domestic final demand
DVA: Domestic value added embodied in foreign final demand

There is thus a relatively high component of local employment that depends on final foreign demand and on the proper functioning of the GVCs. Traditional wisdom considered offshoring strategies a great risk in terms of the potential loss of local jobs, but experience shows that those jobs, if relocated, are offset by the local jobs that depend on the operations of locally established foreign multinationals and their exports through GVCs[35]. There is, however, a potential risk of employment losses if value chains are disrupted.

2. Contribution to exports

Spanish companies have proven able to compete in international markets and some have become multinationals of reference in their respective sectors. Nevertheless, the number of Spanish exporters is still relatively limited as most are small and strong internal demand during the boom years was enough to keep them in business. Though not the only one, their reduced size is an important consideration when opening and consolidating positions in markets abroad.

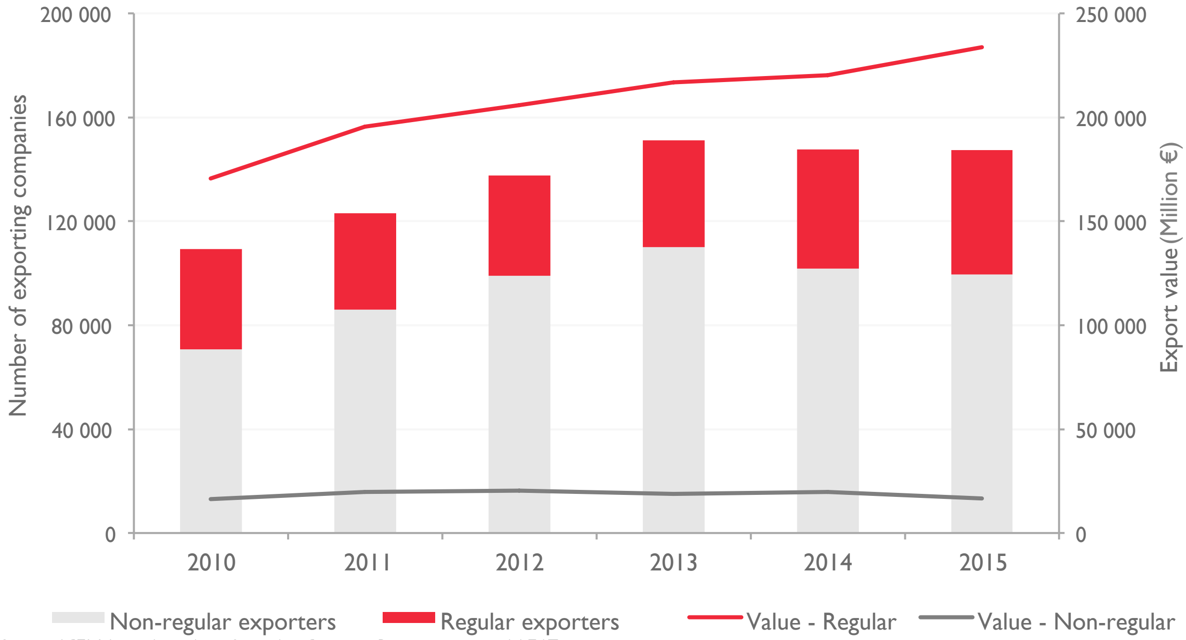
According to figures provided by ICEX for the last year available, and limited to the export of goods, there were 147,378 exporting companies in Spain in 2015 (10.3% of the total number of companies with employees in the country). Only 33.4% of them (47,782 companies: 3.3% of the total) can be considered regular exporters, that is: companies that had exported in each of the previous 4 years. The value of these exports was €250.24 billion and 93% of that was from regular exporters.

Although growth in the number of exporters since the beginning of the century is remarkable (there were 66,278 in 2000), the total number of exporters in Spain decreased in 2015 (although not the number of regular exporters which rose by 4.2%). Spanish exporters are very heterogeneous and a few account for the bulk of all exports by value. Over half of these companies export goods worth less than €5,000 in a year, and in an inconsistent and sporadic fashion. There are around 100

35. OCDE (2013): "Implications of Global Value Chains for Trade, Investment, Development and Jobs", Joint Report by the OECD, WTO and UNCTAD to the G20 Leaders Summit, Saint Petersburg, Russian Federation.

companies whose exports are worth €250 million or more and these are responsible for 40.6% of the total value exported, a figure that rises to 61.4% if we include the 633 companies whose exports are worth over €50 million, and 88.3% when we include all 5,340 companies with exports worth more than €5 million. A vast majority of the exporting companies are SMEs, but their share in the total value of exports is below 50%, behind their relative importance to national GDP.

Figure 25: Changes in numbers of Spanish exporters



Source: ICEX, based on data from the Customs Department and AEAT

Despite positive growth in recent years, especially for regular exporters, Spain still needs to overcome a series of obvious weaknesses in its productive system that hinders its access to international markets. It is commonly accepted that export growth is related to variables like growth of demand in traditional target markets for exports, variations in national demand (growth tends to discourage exports, and vice versa) and increased cost competitiveness[36]. Additionally, company size is a relevant variable in the development of the export activity; as the average size increases, so does the share of companies that sell abroad and their export intensity. In the case of Spain, the reduced average size of its companies seems to be one of the main barriers for exports: limitations in terms of financial resources, lack of management staff qualified for these activities, insufficient or inadequate labour resources, difficulties in identifying potential clients or partners, lack of bargaining strength and sales capabilities in target markets, as well as difficulties in obtaining adequate information about external markets, can be identified as some of the main reasons behind their lower propensity and ability to export.

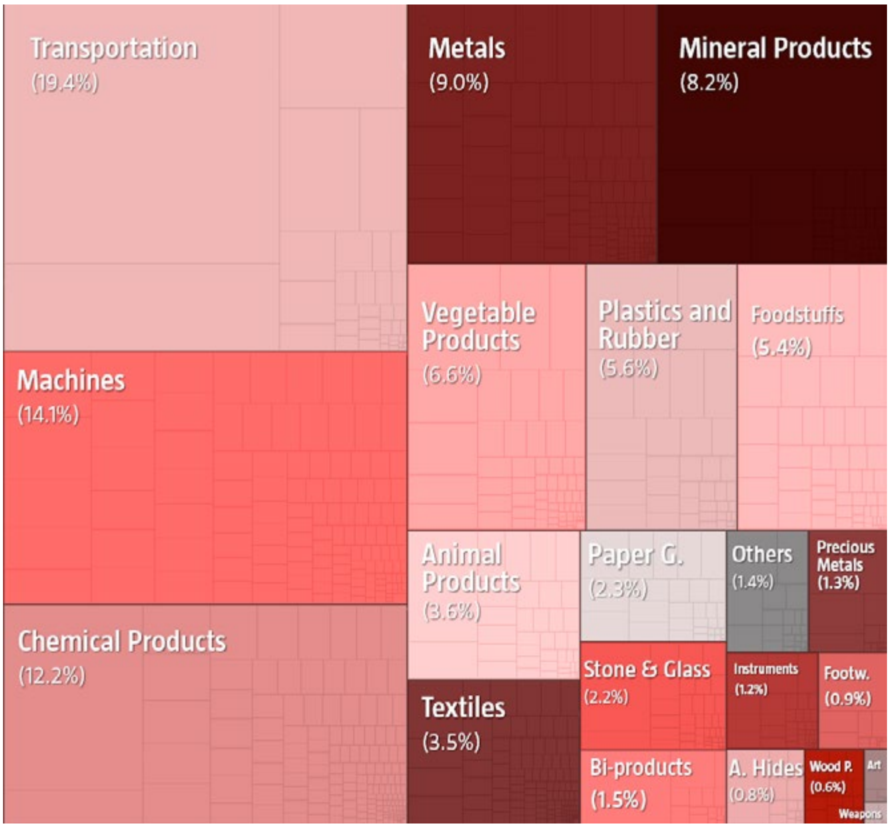
Foreign direct investment can stimulate exports from Spanish companies in several ways. On the one hand, because of their characteristics (greater size, higher technological and productivity levels, and integration within multinational structures) foreign subsidiaries have a greater tendency to export. On the other, smaller Spanish companies can gain access to the aforementioned GVCs, through the sale of their goods and services to bigger foreign multinational companies already present in the country. The more international nature of the Spanish economy in recent years has

36. Fernández, María Jesús (2014): "Devaluación interna y crecimiento de las exportaciones", Cuadernos de Información Económica (Funcas), nº 242, September-October 2014.

gone hand in hand with a closer union between Spanish subsidiaries and their international groups. These subsidiaries help establish long term relationships between local providers and international companies and the former are thus able to evolve from local to global providers in time.

Close to half of Spanish exports are in sectors where the technology content is high (Pharmaceutical products, Electronic and optical products, Aerospace and aeronautical) or medium-high (Chemical products, Electrical equipment, Automotive vehicles or Medical equipment). All these are competitive sectors in which foreign multinationals in Spain are particularly active. Products and services that meet global demand, that are of better quality and are well differentiated, have helped raise Spanish export volumes in recent years, as has the gradual addition of smaller local companies with high productivity levels to the body of Spanish exporters.

Figure 26: Spanish exports by sector, 2013



Source: MIT Observatory of Economic Complexity, 2016

Within the manufacturing sector, Transport equipment remains the basic pillar of foreign capital in Spanish exports, representing almost three quarters of exports in the sector, and two thirds of the total value exported by foreign subsidiaries[37]. Not surprisingly, the local motor industry has been in foreign hands since 1986. Another sector that is heavily dependent on foreign capital is Pharmaceutical products, responsible for 63% of exports within the sector and the contribution of multinationals having played a vital role in the development and international expansion of the sector. Foreign companies also exert significant influence in sectors such as Paper and Plastics and rubber. In other sectors, like Metals, Electrical equipment, Machinery, Electronic equipment

37. Álvarez, E.; Fernadez-Otheo, C.M. (2014): "El capital extranjero y la exportación española", in Rafael Myro (dir) "España en la Inversión Directa Internacional", IEE.

and Chemicals, foreign capital in exports is more relevant in absolute figures than in terms of the share they represent, with sales abroad dominated by local companies. The presence of foreign multinationals can also be observed in other service sectors like ICT or the Insurance industry, although here, their share of exports is less relevant.

These foreign multinationals established in Spain, already responsible for close to 40% of total Spanish sales abroad[38-39], also play a major role in increasing the competitiveness of Spanish exporters. They help increase the volume of overseas sales and raise their technology content and diversification, they facilitate access to foreign markets where they are already operating and well known, and they also disseminate their intangible assets to the national companies. Other well-known positive indirect effects include the adoption of their practices by local companies, through imitation and knowledge transfer or through relationships and the recruitment of staff with previous experience in multinationals[40].

3. Spain as an international business hub

Spain, owing to its geographical location and its socioeconomic ties, is considered a gateway for business with Latin America, North Africa, the Mediterranean countries and the Middle East. Beyond the indisputable advantages the country offers from an accessibility point of view, there are a series of agreements that provide the ideal framework for fostering trade and further investments (Double Tax Agreements or Multilateral Agreements on Investments, for example).

Many foreign multinationals use Spain as a springboard to those third markets, contributing to a greater globalization of the local economy. Some Spanish subsidiaries of foreign corporations could be considered multinationals in themselves, as they have made direct investments in third countries, and are given responsibility for coordinating and controlling affiliates abroad. They are subsidiaries with a strategic international mandate, behaving as real foreign investment platforms for the multinationals they belong to, combining their management duties with value creation. Once the headquarters is aware of the strategic capabilities of these subsidiaries, they gain status and visibility within its internal structure and this can lead to additional resources and greater autonomy for the subsidiary.[41]

A necessary condition for the existence and survival of these internationally-minded subsidiaries in Spain is that they remain competitive, possessing or generating unique assets that can be marketed, exported and coordinated within their network.

4. Improvement of the country brand and positioning

Besides the contributions in terms of wealth, employment and exports derived from foreign investments, we should not underestimate the indirect effects they have on the local economy. Their presence is a show of confidence in the country and sends an important message abroad even if this might be hard to measure. Although Spain this might be hard to measure. With some exceptions, there is evidence to suggest that there is a significant gap between Spain's perceived image positive way by international markets, there is enough evidence to suggest that there is a significant gap between its perceived image and the reality, and that reducing that gap can have

38. AFI (2010): "Internacionalización, empleo y modernización de la economía española", AFI-ICEX
39. Álvarez, E.; Fernadez-Otheo, C.M. (2014): "El capital extranjero y la exportación española", in Rafael Myro (dir) "España en la Inversión Directa Internacional", IEE
40. Blomström, M., A. Kokko, M. Zejan (2000): "Foreign Direct Investment. Firm and Host Country Strategies", London: Macmillan
41. Monteiro, L.F., Arvidson, N. y Birkinshaw, J. (2008): "Knowledge Flows within Multinational Corporations; Explaining Subsidiary Isolation and Its Performance Implications", Organization Science, vol.19, nº 1

> Their commitment to the country projects an image abroad of confidence in the local economy and this helps to increase investment and export levels

a strong impact when attracting a greater number of investments and technology companies. Reports such as the 'Spain Brand Observatory' produced by the Royal Elcano[42] Institute while highlighting this gap between reality and perception in areas such as technology or the technological capabilities of Spanish companies, show the difficulty of changing the and improving the country brand abroad. As with companies, the reputation of a city or a country has a significant impact on its economy: those countries with positive brands and reputations find it easier to attract foreign investments, increase their exports, welcome more tourists, improve their diplomatic capacity and attract international talent and knowledge[43].

The brand of a country or region is constantly compared with that of their 'competitors', and foreign multinationals, their foreign managers working in Spain, and the Spanish executives within their international structures, are a fundamental asset in terms of support for the country brand. Their ties to Spain and their ability to influence economic and business environments make them unbeatable opinion leaders and supporters of the Marca España and of the opportunities the country offers, if they choose to defend Spain as a business location in their international decision centres. Their investment or expansion decisions in the local ecosystem are taken as a clear support indicator and as a bet on their own future.

This support is particularly relevant and necessary in countries like Spain that still lack a strong brand, despite the new breed of home-grown Spanish multinationals that are internationally recognised.

42. Real Instituto Elcano, Observatorio Imagen de España
43. Reputation Institute (2015): "La reputación de España en el mundo: Country RepTrak 2015"

05

THE MODERNIZING EFFECT AND INCREASED PRODUCTIVITY

1. Innovative companies

The Spanish subsidiaries of foreign multinationals make a significant contribution to the country's innovation. Not only are they agents of innovation themselves but they play an important role in spreading knowledge throughout the business community. According to an index, produced by the European Commission, that measures the relative strengths and weaknesses of member states in relation to the three main areas of innovation, Spain is still considered a moderate innovator with scores below the European average[44]. It is not accorded a position in the technological vanguard despite its considerable achievements prior to the recession. So it is still necessary to increase the country's capacity for generating ideas and converting them into growth and prosperity and multinationals can and do play an important role in improving the local climate and culture for innovation.

The majority of these subsidiaries of foreign enterprises operate in industries that are rich in technological content and their expenditure on training, R&D and other technology variables exceeds that of Spanish enterprise[45]. In this way, FDI can fill gaps in the local value chain. As we have already observed, there is a notable presence of foreign capital in high tech and medium-high tech manufacturing industries such as the automotive, chemical, and electronic sectors and this is in part explained by the relative strength of these companies in terms of size and productivity, which helps them overcome most barriers to market entry[46].

Investment in innovation is a fundamental element of the value chains we have discussed previously, since much of their very value is generated by activities that depend upon knowledge of new trends in design, development and management of cutting-edge technologies and complex systems as well as organisational skills[47]. Broadening the international appeal of their innovations is an integral part of most multinationals' strategies and this, in turn, is heavily dependent upon their specific business area and sector focus.

> "They play a fundamental role in the innovative activities undertaken in the country, both as innovators and as distributors of knowledge"

According to data from the National Statistics Institute (INE)[48], in the period between 2012 and 2014, there were 18,511 companies in Spain deemed to be innovative. Of these, 1,742 (9.4%) could be classified as foreign (using the definition that includes any company with >10% of its capital in foreign hands). If we exclude from this group public companies, associations and other research bodies, the percentage of foreign-owned innovators rises to 10.7%. 11.5% of these are industrial organisations, 8.6% are services and 3.2% are in construction.

When we look at size, we again see some marked differences. Just 8.5% of small and medium-sized enterprises (SMEs) that are involved in innovation are foreign-owned compared with 29.9%

44. Innovation Union Scoreboard 2015, European Commission
45. Álvarez, I.; Molero, J. (2005): "Technology and the generation of international knowledge spillovers: An application to Spanish manufacturing firms", Research Policy, vol. 34, nº 9
46. Myro, R. (dir.) (2014): "España en la Inversión Directa Internacional", Instituto de Estudios Económicos
47. OCDE (2014): "Global Value Chains: Challenges, opportunities and implications for policy". OCDE, WTO and WB
48. INE (2016): "Encuesta sobre innovación en empresas, 2014"

of companies with >250 employees. If we measure private companies only, the latter percentage rises to 46.3%.

Figure 27: Companies involved in innovation and research and development activities in Spain, 2014

Source: INE, Encuesta sobre innovación en empresas y Estadística de I+D, 2014

It is unsurprising that the recession has had its effect on the number of companies involved in innovation (a 56.1% drop since 2008) and this effect has been particularly notable among local companies; they have registered a drop of 57.7% compared with 32% for their foreign counterparts.

In 2014, R&D expenditure amounted to €12.96 billion (up 2.1% on the previous year's figures). 67.56% of this expenditure was on R&D and the remaining 32.44% on other activities classified as innovation. Since 2003, innovation expenditure by subsidiaries of foreign companies has varied from 31% to 39% depending on the year, whilst the percentage of employment for which they are responsible has hovered fairly consistently around 21%[49]. Average total expenditure and contribution to employment in innovation has remained considerably greater than that of local companies.

2. Research and Development

We are all familiar with the stories of manufacturing plants being moved from one location to another by multinationals, but more recently, and with less fanfare, there have also been instances when a corporation has decided to relocate an R&D centre or other high value added activity. Taking R&D abroad answers a number of different needs: product modification centres where the emphasis is clearly on adapting a new development to a local market, global innovation centres with a broad and independent remit, hoping to take advantage of the international talent

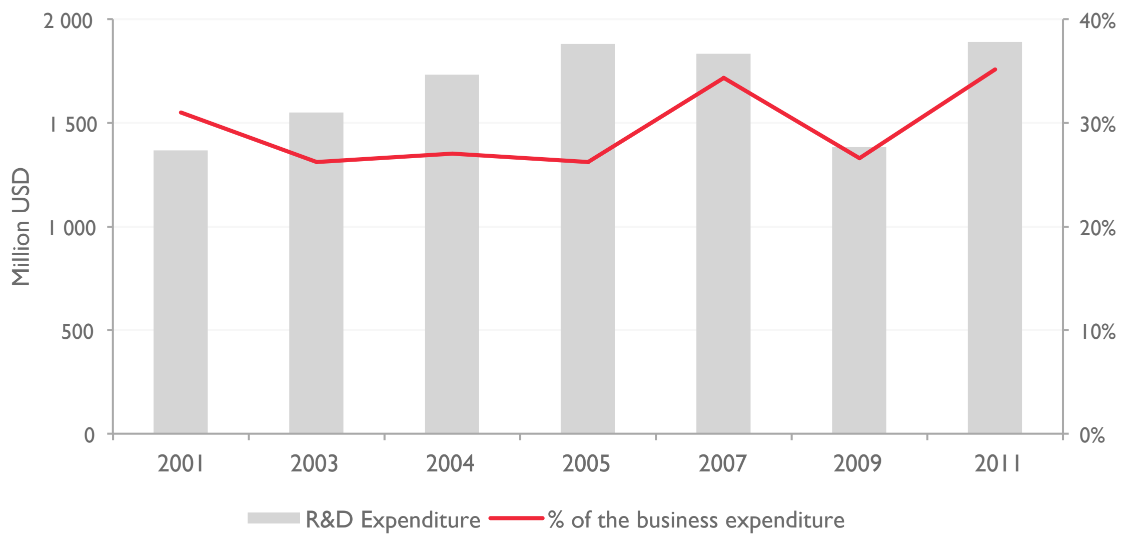
49. PITEC, Panel de Innovación Tecnológica.

on offer, and lean centres that reduce costs by optimising the existing global structure of the parent company. Not all subsidiaries are mini replicas of the head office back home, nor are they secondary players in production, but it is often the case that they compete with their counterparts in other territories to bring more activities to their local market.

In Spain, there has been no shortage of the first category and much of the research conducted in the country by multinationals has been unashamedly geared towards product "localisation"[50], where possible adding some value that can, in turn, be transferred to other subsidiaries. The strategic role of subsidiaries is no longer that ordained by HQ when establishing its local office. Nowadays the subsidiary itself can exert some influence over its own strategic direction and its role within the greater company in just the same way that its local business environment will undoubtedly propel it along one path or another[51].

Regardless of the principal objective of these centres, foreign companies play an important part in national R&D efforts. In 2011, they accounted for 20% of R&D expenditure by businesses in the majority of OECD countries and this figure rose to 35.29% for Spain. In some especially open economies, the percentage can be much higher, such as 64.88% in the case of Israel or 71.13% for Ireland. By contrast, some of the world's strongest economies provide the opposite picture, with foreign companies contributing a mere 15.26% of R&D expenditure in the USA and just 5.58% in Japan. R&D expenditure by multinationals often exceeds the national R&D spend in the countries where they operate; only the USA and Japan have a greater national government spend than the combined R&D expenditure of the eight biggest corporations in the world[52]. It is difficult to know how to interpret these figures. On the one hand, it could be that a strong national innovation system acts as a catalyst and magnet for players from abroad. Alternatively, one could argue that larger companies seek the competitive advantage of establishing an operation in a country where the local innovation effort is below par.

Figure 28: R&D expenditure in foreign subsidiaries in Spain



Source: OECD, Science and Technology Indicators

50. Miravitlles Matamoros, P.; Núñez Carballosa, A. y Guitart Tarrés, L. (2010): "Internacionalización de la actividad de I+D en las filiales de multinacionales extranjeras en España: ¿Explotación o creación de ventajas competitivas?", Universia Business Review, nº 28
51. Birkinshaw, J.M. y Hood, N. (1998): "Multinational subsidiary evolution: capability and charter change in foreign owned subsidiary companies", Academy of Management Review, October, Vol. 23, num. 4, pp. 773-796.
52. OCDE (2011): "Attractiveness for innovation. Location factors for international investment", OECD Publishing

"Foreign subsidiaries account for more than 35% of R&D investment in Spain by the private sector"

Foreign subsidiaries in Spain account for fewer than 1% of all companies in the country but for more than 35% of R&D investment by the business sector. In 2011, they invested $1.88 billion, 36.7% more than in 2009, to reach the levels that prevailed before the recession.

Eurostat provides a similar picture through its statistics of foreign subsidiaries. It calculates €1.26 billion of R&D expenditure in 2013 between Industry and Construction. In the past year, there has been a slight decrease in this expenditure but the compound figures reflect annual growth of 6.5% since 2009. Expenditure has been strongest in Transport equipment (31.3%), Motor vehicles (21.5%), Pharmaceuticals (12%) and Chemicals (7.4%).

The foreign subsidiaries measured by the Eurostat figures between them account for 16,853 jobs in R&D representing a sustained annual rise since 2009 of 9.5%. In a similar vein to the expenditure figures, this employment was particularly concentrated in Motor vehicles (23.5%), Transport equipment (19.4%), Electronic equipment (12.1%) and Pharmaceuticals (8.9%). More than half of these subsidiaries are active in product design and improvement and around 40% in process design and process adaptation to applied research while just 25% undertake basic research in the country[53].

In addition to the direct contribution of these foreign companies, PITEC[54], the Technology Innovation Panel, offers information regarding the number of Spanish companies that have been able to undertake R&D thanks to access to foreign funding. In 2013, EU subsidies were the most significant form of finance of this type, accounting for 23% of internal R&D costs among Spanish companies. 17.4% received funding from foreign governments - almost 7% more than in 2012[55]. If we add into the mix private foreign companies both within and without the same corporate group, foreign universities, charities and other international organisations, we reach a figure of 9% of all Spanish companies, both great and small, that have between them financed 28.5% of their internal R&D costs thanks to foreign capital.

It is also interesting to note the contribution that multinationals make to the dissemination of Spanish scientific output. Some sources[56] estimate that between 22% and 40% of the best Spanish scientific studies are used by companies (and to a lesser extent by public bodies) based outside Spain to create patents. The countries most likely to exploit this rich seam of high value knowledge are the USA, Germany, France, Japan and the United Kingdom. The USA is a particularly interesting case since the number of patents based on Spanish research that are registered by its multinationals exceeds the total number of patents registered in Spain itself and vastly exceeds the number registered by Spanish companies since most patents in Spain are registered by public bodies.

53. Miravitlles Matamoros, P.; Núñez Carballosa, A. y Guitart Tarrés, L. (2010): "Internacionalización de la actividad de I+D en las filiales de multinacionales extranjeras en España: ¿Explotación o creación de ventajas competitivas?", Universia Business Review, nº 28
54. FECYT – ICONO (Observatorio Español de I+D+i)
55. Informe PITEC 2013: "Financiación y capital humano en la innovación de las empresas"
56. SCImago (2013): "Análisis de apropiación del conocimiento científico", SCImago - FECYT

3. Technology and know-how transfer

Multinationals are among the most important vehicles for technology transfer between countries. A variety of means are deployed, including the connections and exchanges that result from joint developments by multinationals and local companies, subcontracting arrangements and imitations. Personnel and technology incorporated in the business models of foreign subsidiaries also flow from larger, more international companies to the local market and have their effect on the local ecosystem. Over the medium and long term, these influences create an environment in which innovation flourishes.

This transfer is not automatic, but depends upon the degree to which foreign subsidiaries invest in sectors with a high technology or know-how content as well as the extent and quality of their relations with local companies[57]. In many cases, the nature of that interaction explains spillovers rather better than it explains levels of FDI. It also depends a good deal on willingness on the part of the local company to invest and to assimilate the knowledge and skills exhibited by the foreign companies[58].

The increased integration of global capital markets helps the spread of best practices and the subsidiaries of multinationals benefit from the accumulated experience of their head offices and, in turn, pass back to HQ the knowledge of different practices that they acquire or develop as well as synergies that are created within different parts of the same group. Resources and knowledge are also shared with other local operators such as clients, competitors, universities, research and technology centres and entrepreneurs, strengthening links, improving the local business environment and creating new intellectual property.

Foreign multinationals in Spain, more than national multinationals, drive many high value-added activities, encouraging the transfer of knowledge and leading the initiative in creating innovation networks and clusters as well as developing specialist science and technology centres and facilities[59].

4. Enhanced productivity and role in helping local companies to grow

Competitiveness and productivity tend to be favourably influenced by the presence of foreign multinationals in a given location. The economies of scale that they enjoy on account of their size, combined with their need to stay competitive in markets that are more difficult and complex, mean that they tend to be more efficient and productive than their less international counterparts[60]. At first, they stimulate competition in the markets where they operate, driving costs down and product and process quality up. Only the most productive companies are equipped to enter international markets successfully, the top tier via foreign direct investment and the rest via export. Less efficient companies remain limited to their domestic markets[61].

Productivity plays a central role in global provision strategies[62], as shown by a number of studies that demonstrate that companies that belong to international groups tend to be more efficient than companies that belong to national groups, though these are in turn more efficient than independent companies, creating more jobs, exporting and importing more and generating

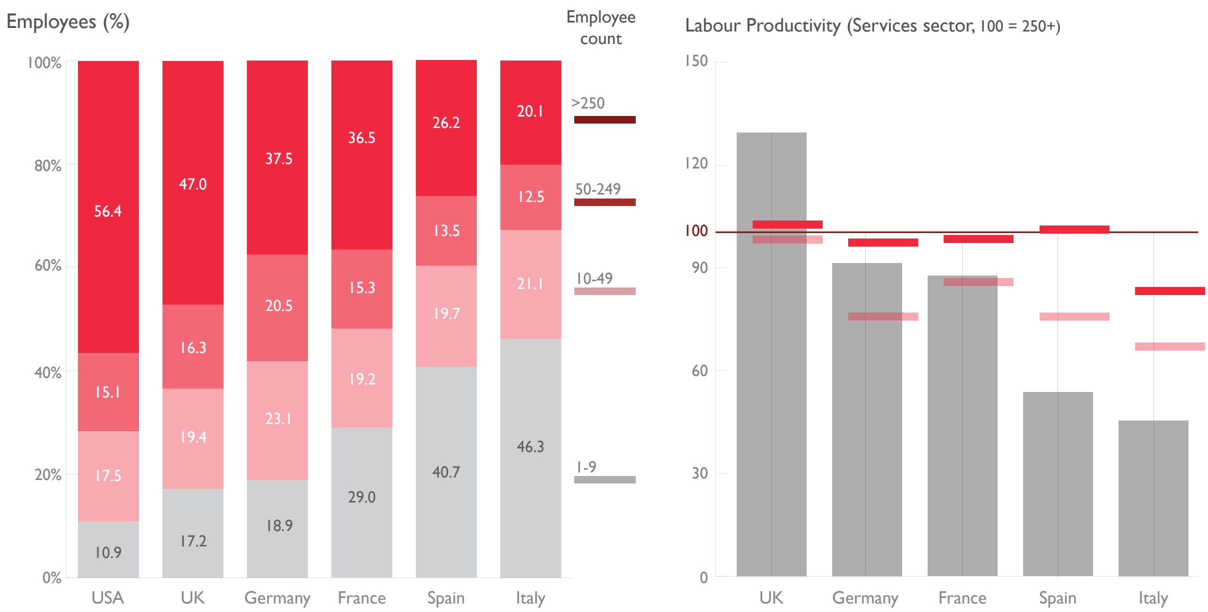
57. OCDE: "Aid for Trade 2011: Results Emerging From the Case Stories", OECD/WTO, Paris and Geneva
58. Blomstrom, M. and Kokko, A. (2003): "The Economics of Foreign Direct Incentives", NBER Working Paper No. 9489, Cambridge, MA.
59. Fundación I+E (2010): "La I+D+i de las multinacionales en España como agentes del cambio de modelo económico"
60. Arahuetes, A; Steinberg, F. (2013): "La internacionalización como palanca para salir de la crisis", Real Instituto Elcano, 2013
61. Helpman, E.; Melitz, M.; Yeaple, S. (2004): "Export vs FDI with heterogeneous firms", American Economic Review
62. Antràs, P., Helpman, E. (2004): "Global sourcing", J. Polit. Econ. 112

greater profit[63]. There is a clear link between FDI flows and productivity although in practice, it is not so easy to determine which is a result of which. On the one hand, there is evidence of positive selection whereby a foreign group might acquire a local company precisely because of its potential and relatively good levels of productivity. On the other hand, the investment that the local company receives upon acquisition reinforces this same latent potential by providing access to the assets and resources of the acquiring company. Along these lines, some acquisitions can be perceived as a transfer of assets from less efficient owners to others who are better equipped to manage them[64].

Some Spanish companies are undisputed leaders in their sectors, reaching and even surpassing the levels of innovation and productivity of the foreign multinationals with which they compete. Nonetheless, the truth is that the vast majority of Spanish companies are small in size and low in productivity thanks to corporate policies and practices that are neither innovative nor efficient and to an excessively passive attitude towards new technological advances. When we look at large companies, the differences are negligible, but comparing mid-sized or small enterprises, foreign subsidiaries exhibit far greater productivity than their national counterparts.

When we measure productivity levels in Spain, it is necessary to understand not only the importance of introducing new technology, of focusing the economy on sectors with higher added value and of improving regulation and workforce-related factors, but also the role played by the way in which the local economy is structured and in particular, the size of the companies. The modest dimension of Spain's companies is a structural characteristic that complicates access to technology, finance and qualified staff. This relationship between size and productivity is especially critical in manufacturing and less significant in services[65].

Figure 29: Labour productivity and employment levels by size of company



Source: OECD, Entrepreneurship at a Glance 2015 (Data: 2012 or after)

63. Fontagné, L.; Toubal, F. (2010): "Foreign Direct Investment and Business Performance", Analyses Économiques, vol. X-02
64. Lipsey, R.E. (2000): "Interpreting developed countries Foreign Direct Investment", NBER Working Papers, nº 7810
65. OCDE (2014): "Entrepreneurship at a Glance 2014", OCDE Publishing.

Spain tops the OECD ranking for micro-businesses as a percentage of the national total. Only Italy employs more people in micro-businesses. In 2014, Spain's companies employed an average of 4.7 people, in line with other countries in Southern Europe, but well below the average for Central and Northern Europe and for more advanced economies such as the USA. The following charts show levels of employment by size of company as well as related productivity rates.

Increased FDI helps to fill some of the productivity gap related to company size and access to resources and knowledge. Foreign subsidiaries can go some of the way towards removing the barriers to growth that local companies face. These barriers can be explicit (regulatory, institutional or financial) but are often implicit (sociological). In the same way, foreign subsidiaries stimulate activity in emerging sectors that are high in technology and added value. Productivity improvements are closely linked to investment in monetary and human capital[66]; technology strides are often the result of knowledge embedded in imported goods and services or are the direct result of FDI. Productivity improvements tend to go hand in hand with capital increase[67].

66. Aghion, P.; Howitt, P.W. (2009): "The Economics of Growth", MIT Press
67. Haskel, J.E.; Pereira, S.C.; Slaughter, M.J. (2002): "Does Inward Foreign Direct Investment boost the productivity of domestic firms?", National Bureau of Economic Research, Working Paper 8724

06

POLICY ADVOCACY

Government attitudes towards FDI vary from fierce distaste to close embrace. Some countries believe in it so fervently that it forms part of their national DNA and they base their technology strategies in part on the requests and requirements of foreign multinationals operating in their territory. An example of this symbiosis whereby the country and its investors form a mutually beneficial union is Ireland whose economic and political direction is significantly influenced for the good by the needs of its many foreign investors: the results are tangible and positive.

There are plenty of other examples of countries that have reaped the benefits of involving business in their national agenda. In these cases, foreign companies are seen as long-term partners whose success depends upon the economy of their adoptive country and vice versa. The importance of this interdependence to some companies is so acute that they maintain Government Affairs departments whose principal brief is to nurture relations with the governments of countries where the company has personnel or other economic ties.

In general, companies operate with a long term view and develop contingency plans for dealing with the unexpected whereas governments and public bodies are constrained by their electoral cycle to the short and medium term. Multinationals need guarantees of continuity for their investments abroad and keep a close eye on the political climate of the countries where they operate. They are not above threatening disinvestment if they don't like what they see. The importance and potential mobility of these funds helps to restrain host governments from adopting extreme policies; the greater a company's commitment to an economy, the greater its demands upon it. Business wasted no words on manifesting its opposition to Scotland's bid for independence, ahead of its referendum in 2015, an attitude that mirrors the experience of some of the more restless Spanish regions and serves to show the depth of concern that these threats to the status quo generate among employers. Although the same pressure was not enough to prevent Britain from voting to leave the EU several months later, it is probable that the anti-separatist line taken by most large companies helped to seal the ancient pact binding Scotland to the United Kingdom - for, after all, a company relocating out of a country signifies not only short term job losses and a dent to wealth creation but also a longer term and damaging blow to the nation's international image and dignity.

The business community seeks and actively contributes to the creation of a simple, comfortable operating environment. If it works and lobbies to remove barriers and lack of transparency, it is only confirming why supra-national organisations like the European Union exist. Indeed, one of the most positive effects of multinational involvement in government has been the streamlining of policy between different countries and the spreading of best practices, regulations and standards that have enabled international markets to become better integrated and more compatible. Some notable examples include free competition policies, the Kyoto protocol on climate change and corporate responsibility programmes that have helped to reduce the numbers of minors working in production facilities around the world.

The arrival and establishment of a foreign multinational allows the host country to test and emulate best practices from other countries, increasing competitiveness and providing opportunities for the local population. The modernisation of countries in Eastern Europe - and even Spain - owes much to foreign companies for the speed with which their economies have been restructured. An extreme example of this phenomenon is Costa Rica, whose transformation from clothing

> The influence they exert on governments tends to be eminently positive and has resulted in tremendous benefits in the spheres of education, infrastructure and communications

exporter to electronics hub in a relatively short time is traceable to one single but very significant investment in 1997 by a US technology giant. This one investment accounted for 6% of accumulated FDI over the 17 years of its duration, as well as 6% of national GDP. When the company finally relocated from Costa Rica in 2014, following a strategy that centralised manufacturing in lower-cost countries such as Vietnam, it left a country whose image is now one of sophistication, advanced technology and professionalism. Without a doubt, its principal legacy has been to lead the way for many other technology multinationals.

But even when a multinational's objectives are less ambitious than full scale economic restructuring or sector transformation, they tend to have a very positive modernising influence over the governments and public bodies that they encounter. As we have established previously, many play an active role in improving the skills of the local workforce with a transparent interest in putting them to good use in their own subsidiaries but with undeniable benefits to the local community and society. Long standing multinationals with widespread experience around the world tend to develop initiatives of this sort wherever they have operations.

Recent studies have demonstrated that global demand for skilled workers in certain sectors - notably ICT and other forms of engineering - vastly outweighs current supply. Not only this, but many are the CTOs and other recruiters who complain that the graduates in these areas that they do manage to recruit, though innately capable, are inadequately prepared for the tasks that await them in the workplace: universities are not adapting their ICT courses swiftly enough to include, for example, cloud computing, mobile application development, security or big data analytics. So it falls to companies to alert governments to the modifications required in the tertiary syllabus or, indeed, in the national curriculum.

We are seeing an increasing investment by technology companies in schools and training centres. By providing equipment, teachers, training and finance as well as helping to modify and update local education standards, these initiatives often become significant development centres that offer opportunities to local talent. And these schemes are not limited to emerging markets. Countries with advanced economies such as the USA offer many examples of close collaboration between private enterprise and universities for the development of engineering courses. While there is an emphasis on promoting and boosting the appeal of STEM studies (Science, Technology, Engineering and Mathematics) and in directing those efforts at certain groups such as girls and young students in countries with a strong Arts and Humanities tradition, there are also plenty of examples that are the result of Corporate Social Responsibility programmes.

There is no shortage of examples in Spain - from the development of dual training courses led by German companies to specialist new technology centres born of public-private ventures. And they are by no means limited to training; Spain was one of the first countries in Europe to relax its immigration laws for the benefit of foreign professionals, thanks, in part, to the sustained campaign by Japanese corporations for a more flexible and coherent process for relocating their expatriates and accompanying families to the country. Other examples include the dramatic reduction of energy consumption in many cities owing to energy efficiency and Smart City projects championed by consortia of local and multinational companies or the inauguration of new or direct flights between two territories when a foreign company arrives or becomes active in a new market. Lengthy negotiations - sometimes lasting years - between the multinational companies and the governments of their host country are required to make these changes happen but without the intervention of the former, these gains for the latter might never come to pass.

There is some evidence that FDI is a more important component of the economy in countries where the local institutions are relatively unsophisticated. In these cases, companies may prefer to operate directly rather than seek finance from markets that may be non-existent or insufficient for their needs.

In countries for which FDI is a national priority, the role played by the national Investment Promotion Agency can be significant. In these instances, the IPAs assume responsibility for Policy Advocacy, acting on behalf of investing multinationals in transmitting their requests and concerns to the relevant government departments. In this way, the investor is freed from any negative image associated with the lobbying in question and the country gains a reputation for receptiveness and support that can only be beneficial to its inward investment flows.

There is no question that multinationals can help modernise and loosen the operating environment of the countries in which they work, either directly or through intermediaries such as the national IPA. But in order for this to happen, local government must be behind the changes and must devote the necessary resources to implementing them for the long term. On this will depend their ability to compete on the world stage.

07

EXECUTIVE SUMARY

[Context]

- Foreign Direct Investment (FDI) can reasonably claim to have helped create the more international approach to economic production that the world has witnessed over the past few decades.
- Leaving aside the recent decline in FDI occasioned by the world recession, and which has already been partly corrected by an upswing in 2015, no one could deny that the growth of FDI has been exponential, especially since the 1990s.
- UNCTAD estimates that global FDI flows recovered their pre-recession levels in 2015, rising 36% to reach 1.7 billion dollars. This increase owes much to cross-border mergers and acquisitions.
- Unless there is a new burst of mergers and acquisitions and corporate restructurings, FDI flows are expected to fall in 2016, owing to global concerns.
- As far as Spain is concerned, FDI has been a critical lever in its growth. 2009 marked the start of an upward cycle which continues to this day and which peaked in 2011 thanks to major investments related to mobile telephony licences and an airline merger.
- These days, there are foreign multinationals that can boast over fifty years in the country. Some of these subsidiaries have proven so successful and promising in their own right that they have taken on international portfolios of their own and become Spanish multinationals within foreign multinationals.

[Wealth creation]

- Spain continues to hold its own among the most important destinations for foreign investment in the world. In 2014, it was ranked twelfth in the world and third in Europe in terms of net inward Foreign Direct Investment (FDI) flows. Since 2009, the country has received 2.0% of total global inflows and 8.1% of those received by the European Union.
- In terms of stock, Spain ranked ninth in the world in 2014 with $721.88 billion, holding 2.8% of global FDI stock and 7.9% of EU stock in the same year, above the relative weight of the country in terms of GDP and its share in the export market. Changes in FDI stock have been outstanding, moving up from $65.9 billion in 1990 to the maximum of $802.8 billion reached in 2013.
- At the end of 2013, the number of companies included in the Foreign Investment Registry amounted to 12,103. 37.9% of these were considered head of the declaring group, with substantial control over their affiliates and a strong concentration of the investment stock in a small group of large corporate groups.
- In 2013, there were an estimated 10,700 subsidiaries of foreign companies in Spain spread across Industry and the Services sector: 0.53% of the total number of companies in the country in those sectors. In spite of the recession, they have remained buoyant and even managed to grow whilst their national counterparts have suffered.
- Germany, France, the USA and the Netherlands have the highest number of foreign subsidiaries. The top 10 source countries account for 80.5% of the total number of foreign subsidiaries and 86% of the turnover generated by them.

- Foreign subsidiaries account for 4.7% of the SMEs with 10 or more employees in Spain, but 34.3% of the large companies, which partially explains their relatively high contribution to the local economy. These companies are responsible for 28.0% of total earnings in Spain, 22.4% of labour expenses and 25.2% of gross investment in tangible assets.
- In spite of the recession and the tricky operating environment, they have remained buoyant, increasing substantially their relative importance to the local economy.
- The relative share of these foreign subsidiaries is significant in sectors such as Transport equipment, Chemicals and Pharmaceuticals and Electronic, Electrical and Optical Equipment.
- Productive FDI inflows are a good indicator of the temporary confidence of foreign investors in the country. They have remained more stable than other forms of foreign investment following the sharp fall caused by the recent recession, and have risen steadily from 2009 to reach €21,724 million in 2015, according to the National Investment Register, the fifth best figure on record since the year 2000.
- Growth in net terms has been slightly lower in 2015 (+7.89%). The increase in the level of divestments in the year does not cause concern, as the figures are related to a series of specific operations (relocation of asset-holding companies to the Netherlands and repayment of the debt of a large construction company).
- Greenfield operations, with a marked emphasis on expansions, account for most of the productive investment undertaken (65.5% in 2015).
- These inflows are principally from OECD countries and, in particular, from other European partners. From 2009 to 2015, UK, France, the USA, the Netherlands and Luxembourg have been the biggest investors in Spain. FDI inflows from Latin America and Asia still have a wide margin for growth.
- Preferred sectors for productive investments are Services (58.4%), Industry (31.0%) and Construction (8.8%), with negligible investment in the Primary sector.
- The levels of FDI stock at a given time can be seen as a measure of the long-term confidence of investors in the local economy. At the end of 2013, Spain held €347.62 billion of FDI stock - €298.13 billion if ETVEs (holding companies) are excluded - which represent 33.7% and 28.9% of the GDP for the year, respectively.
- The United States, Italy, France, Germany and the United Kingdom top the list of main investors regarding stock. Sector wise, there is a strong correlation with those sectors that have received large individual investments in recent years, including Electric energy supply, Manufacturing of other mineral products, Wholesale trade and Telecommunications.
- Madrid and Catalonia take the lion's share, which is not surprising, given the number of headquarters in each. Tangible fixed assets provide a broader perspective of the true regional breakdown of these investments. Figures are typically higher in those regions with a stronger focus on the Industry sector so Catalonia, Andalusia and Madrid are key regions, followed at a distance by the Region of Valencia and Castile and León.
- At another level, Spain was the preferred location for 2.18% of greenfield projects announced between 2003 and 2014, a figure that rises to 12.35% if we restrict our analysis to Europe. The total value of the announced projects in that period was $169.2 billion (an annual average of $14.1 billion), distributed across 4,421 projects.

- With 371 greenfield FDI projects in 2014, Spain occupied eleventh place worldwide and third in Europe. Regarding the value of the announced projects ($10,776 million), Spain ranked nineteenth in the world and second in Europe that year.
- Between 2012 and 2015, fDi Markets identified 1,557 Greenfield FDI projects in Spain, with an estimated value of $44.64 billion, that generated more than 122,400 jobs throughout the country.
- These foreign investments have helped keep the economy healthy in times of difficulty, by providing liquidity when the country's own resources were stricken by recession or similar. The Spanish economy exhibits fairly persistent external debt, with the Balance of Payments showing the channels used by foreign investment to access the local economy.
- Foreign multinational companies are important taxpayers worldwide. In developed countries, they account for around 15% of private contributions and 5% of total revenue of their host countries. The tax burden in these developed economies averages 56% (taxes plus social security contributions) and 65% when we include other deductions.
- The tax burden in Spain is below the average for developed countries but above the European average (40.6%), at around 50% after a strong improvement in the last year. The local subsidiaries of foreign entities in Spain contribute around 19.5% of the national total of the payments to the Social Security scheme and 10% of the personal income tax.

[Employment generation and attracting global talent]

- 1.27 million people are employed by the subsidiaries of foreign companies in Spain. Not only does this represent 13.34% of total employment in their respective sectors but also an increase of 5.7% since 2008, which is striking when compared with the decline in employment registered in Spain over the same period. These companies are thought to be indirectly responsible for a further 1.4 million local jobs.
- The share of foreign subsidiaries in employment is particularly relevant in Industry (21.4%), well ahead of their share in Trade (11.8%) or Services (10.9%).
- European companies are responsible for almost 80% of employment, followed at quite a distance by firms headquartered in the USA (16.4%) and Asia (4.1%).
- Net foreign investment received in Spain between 2006 and 2013 contributed to a 5.25% growth in employment in that period, with an associated reduction of 3.15 points in the local unemployment rate. In 2015, FDI added 153,800 jobs to Spain.
- The positive impact of foreign multinationals in Spain is not limited to the quantity of jobs that are created and maintained. The quality of these jobs also benefits: salaries, conditions and working hours are more generous, access to training and prospects for career progression are greater, and there is closer attention to diversity and the workplace.
- In developed economies, foreign investments that follow vertical specialization strategies by country cause an increase in the demand for non-routine jobs
- Foreign subsidiaries in Spain, because of their greater size and resources, tend to offer salaries significantly above the national norm. Their average salaries are 35.8% above the national average, and have increased since 2008 despite the recession.

- Foreign companies have pioneered the introduction of quality employment policies and practices that benefit the local workforce and help to raise the standards of local companies.
- These practices are well regarded by their employees: in 2015, over 40 of the 50 best companies to work for in Spain were foreign, according to the study "Great place to Work"
- Foreign multinationals and their managers in Spain are energetic promoters of the country brand, acting as its ambassadors in their headquarters. They tend to act as a magnet for professionals from other countries, both at senior and technical levels.
- On this same subject, they can help national talent gain more visibility within their own internal structures, contributing to the development of their professional career, and creating future opportunities for the return of the current diaspora.
- The activity of foreign multinationals also stimulates entrepreneurial activity in its vicinity, both by providing opportunities to local entrepreneurs and by creating a vibrant local business environment.

[Foreign sector]

- Global Value Chains (GVCs) have become a prominent feature of the world economy, as a result of extensive changes in the regulatory and business environments as well as technological and connectivity breakthroughs. Multinationals are undoubtedly the principal protagonists in the development of GVCs, and their activity has a significant impact on cross-border trade and the global reconfiguration.
- These GVCs account for 80% of world trade, and the relationship between a country's trading profile and the levels of FDI stock it holds should not be underestimated. The presence of foreign subsidiaries in the economy has an impact both on the content of imports and exports, and also on the extent to which the country participates in international production and distribution networks.
- Countries play a key role in facilitating and capturing part of the value GVCs provide.
- 26.9% of the added value of gross Spanish exports corresponded to foreign inputs ($119.3 billion), compared with 19.7% of the domestic value added embodied in foreign exports as share of gross exports. Spanish participation in Global Value Chains is registered at 46.6%, which is in line with other European economies with a similar level of economic development.
- The number of Spanish exporters is still relatively low. In 2015, there were 147,378 exporting companies in the country, and only 33.4% of them can be classified as regular exporters (companies that had exported in each of the previous 4 years). Just around 100 companies are responsible for 40.6% of the value exported, while the top 5,340 exporters concentrate 88.3% of the value exported.
- The reduced dimensions of Spanish companies seem to be one of the main barriers for exports, limiting their ability to establish and consolidate positions in international markets (limitations in financial resources, lack of qualified staff, little knowledge of foreign markets, lack of bargaining strength and sales capabilities, etc.).

- Foreign investors are definitely a stimulus for these exporters: they help to increase the volume of exports and their technology content and diversification. They have a higher tendency to export, they can incorporate Spanish SMEs into their GVCs or facilitate access to foreign markets where they are already operating and well known, and they foster the introduction of good practices through knowledge transfer and the expansion of contact networks.
- Foreign multinationals established in Spain are already responsible for close to 40% of total Spanish sales abroad and are particularly active in competitive high and medium-high technology sectors with a strong impact on exports such as: Transport equipment, Pharmaceutical products, Paper and Plastics and Rubber.
- Some foreign corporations use the Spanish market as a platform for third countries and in so doing, lend a further international dimension to the local economy. Their subsidiaries in Spain could be considered multinationals in themselves.
- Foreign companies, their foreign staff in Spain and the Spanish staff within their international corporate structure, contribute to the projection of a strong and positive image abroad for Spain, which in turns has a beneficial effect upon the economy, helps increase investment and exports and encourages talent and knowledge to gravitate towards the country.

[The modernizing effect and increased productivity]

- Innovation in Spain is heavily influenced by the subsidiaries of foreign companies that not only spearhead innovation themselves, but also permit their collective knowledge to seep into the local business environment.
- The majority of these subsidiaries of foreign companies operate in industries that are rich in technological content and their expenditure on training, R&D and other technology variables exceeds that of their Spanish counterparts.
- 9.4% of the companies in Spain that are classified as innovative are foreign-owned, and this percentage rises to 29.9% if we filter out those with fewer than 250 employees.
- Since 2003, innovation expenditure by subsidiaries of foreign companies has varied from 31% to 39% depending on the year, whilst the percentage of employment for which they are responsible has hovered fairly consistently around 21%.
- In 2014, R&D expenditure amounted to €12.96 billion (up 2.1% on the previous year's figures). 67.56% of this expenditure was on R&D, and the remaining 32.44% on other activities classified as innovation.
- Taking R&D abroad answers a number of different needs: product modification centres where the emphasis is clearly on adapting a new development to a local market, global innovation centres with a broad and independent remit, and lean centres that reduce costs. In Spain, there has been no shortage of the first category, and much of the research conducted in the country by multinationals has been geared towards product "localisation".
- In most OECD countries, foreign companies' R&D spend is at least 20% of the national total. In Spain this percentage is 35.3% ($1.88 billion).
- If we look at Industry and Construction, Eurostat calculates that foreign subsidiaries in Spain spent €1.26 billion on R&D activities in 2013, employing 16.853 local staff.

- In addition, 9% of all Spanish companies involved in R&D activities have received foreign funding (from public bodies including the EU, foreign governments, universities and other non-profit international organizations and from private sources within and without the same corporate group), covering 28.5% of their internal R&D costs.
- On average, between 22% and 40% of the best Spanish scientific studies are used by companies (and to a lesser extent by public bodies) based outside Spain to create patents.
- Foreign firms are likewise in the vanguard if we look at technology transfer, acting as a particularly driving force where high value added activities are concerned. This technology transfer is especially visible in joint developments with local companies, whether subcontracting or outsourcing to them, providing a model for emulation or demonstration or seconding staff or technology to them.
- The presence of multinationals also has a positive effect on local productivity and competitiveness. They tend to be more efficient than their less international counterparts, and even where acquisitions are concerned, they help local companies to realise their potential by providing access to assets and resources.
- The correlation between FDI flows and productivity is pronounced and positive: productivity problems caused by limited size and reduced access to resources and knowledge are more easily overcome with an injection of capital such as that provided by FDI.

[Policy Advocacy]

- Foreign multinationals, either directly or through the intervention of Investment Promotion Agencies (IPAs), greatly assist in modernising and loosening the constraints of the business environments in their chosen countries of operation. There are plenty of examples of countries that have reaped the benefits of involving business in their national agenda.
- Foreign companies act as long-term partners of the countries that host them and, less constricted by the short-term preoccupations common to the political class, are better prepared than most governments to appreciate the changes and challenges on the horizon to which they must all adapt.
- The business community seeks and actively contributes to the creation of a simple, comfortable operating environment, fostering the streamlining of policy between different countries and the spreading of best practices, regulations and standards.
- The influence they exert on governments tends to be eminently positive and has resulted in tremendous benefits in the spheres of education, infrastructure and communications.
- In countries for which FDI is a national priority, the role played by the national Investment Promotion Agency is worthy of note. In these instances, the IPAs assume responsibility for Policy Advocacy, acting on behalf of investing multinationals in transmitting their requests and concerns to the relevant government departments. In this way, the investor is freed from any negative image associated with the lobbying in question and the country gains a reputation for receptiveness and support that can only be beneficial to its inward investment flows.

08
APPENDIX

1. Indirect impact of FDI: Notes on methodology

The framework used for analysis is a computable general equilibrium model (CGE) following the works of Gómez-Plana and Latorre , that allows for evaluation of the impact of FDI over the employment levels for the national total and for each of the sectors. The model used permits simultaneous treatment of microeconomic variables (such as the production costs of national and foreign companies across sectors, and their production and employment levels), and macroeconomic variables (GDP, salaries or wellbeing). In this way, we can approximate the aggregate and sector impact of the FDI inflows in a consistent manner.

The model used by Gómez-Plana and Latorre takes into account that production technology differs both between sectors as well as between multinational and national companies within the same sector. Using data from the INE, Eurostat and the OECD, these authors have calculated the percentage of production that corresponds to multinational corporations (MNCs) and to national enterprises, as well as their respective shares in the salaries paid to their workers in the gross operating surplus of each sector and its intermediate inputs. With that information, they can compare MNCs with local companies based on the specific characteristics of their production by sector. This suggests that the model incorporates different levels of productivity, of capital/labour intensity and of value added generation for each type of company. The new capital that flows into the economy, that is, the FDI inflow, is used by MNCs for their own production, together with their own technology.

The starting point for the analysis (baseline year) used within the model is 2005, a year when MNCs had a particularly significant share of the automotive sector and, to a lesser extent, of the chemical sector. MNCs were also strongly represented in Rental services, Vehicle sales, Energy, Food, Telecommunications and Trade. The Public sector had no MNCs, and their presence in the Construction sector was minimal.

The data used are the net FDI inflows for 2015, according to the Registro de Inversiones Exteriores (RIE). In order to make the analysis compatible with the aforementioned by Gómez-Plana and Latorre (for the period 2006-2013), values are expressed in constant value (2010 Euros).

When analysing by sector, 23 different sectors have been considered. 22 simulations have been run in order to analyse the effects on the Spanish economy of the net FDI inflows in each of the sectors (except in Public services), plus an additional simulation that replicates the total variation of the net investments in 2015.

In the simulations, it is assumed that the revenues collected by foreign investors are not sent back to their source countries. We know that this is not the case and, according to UNCTAD, the share of revenue that left the country could have been as high as 65% in developed countries in 2013. However, in the absence of reliable data regarding income or dividend repatriation, the zero figure can at least be used as a best-case scenario.

2. List of graphs

3. List of tables

4. References and links of interest

- AFI (2010): "Internacionalización, empleo y modernización de la economía española", AFI-ICEX
- Aghion, P. (2012): "From growth theory to growth policy design", LSE
- Aghion, P.; Howitt, P.W. (2009): "The Economics of Growth", MIT Press
- Álvarez, E.; Fernadez-Otheo, C.M. (2014): "El capital extranjero y la exportación española", in Rafael Myro (dir) "España en la Inversión Directa Internacional", IEE
- Álvarez, I.; Molero, J. (2005): "Technology and the generation of international knowledge spillovers: An application to Spanish manufacturing firms", Research Policy, vol. 34, nº 9
- Antràs, P., Helpman, E. (2004): "Global sourcing", J. Polit. Econ. 112
- Arahuetes, A; Steinberg, F. (2013): "La internacionalización como palanca para salir de la crisis", Real Instituto Elcano, 2013
- Banco de España: Balanza de Pagos y posición de inversión internacional de España, http://www.bde.es/bde/es/secciones/informes/Publicaciones_an/Balanza_de_Pagos/
- Barba Navaretti, G. and Venables, A.J. (2004): "Multinational Firms in the World Economy", Princeton and Oxford, Princeton University Press
- Birkinshaw, J.M. y Hood, N. (1998). "Multinational subsidiary evolution: capability and charter change in foreignowned subsidiary companies". Academy of Management Review, octubre, Vol. 23, num. 4, pp. 773-796
- Blomstrom, M. and Kokko, A. (2003), "The Economics of Foreign Direct Incentives", NBER Working Paper No. 9489, Cambridge, MA.
- Blomström, M., A. Kokko, M. Zejan (2000): "Foreign Direct Investment. Firm and Host Country Strategies", London: Macmillan
- Bolsas y Mercados Españoles, BME - https://www.bolsasymercados.es
- David E. Lilienthal (1960): "Las corporaciones multinacionales", Carnegie Institute of Technology, April 1960
- Great Place to Work - http://www.greatplacetowork.es/
- Fariñas, J.C.; Huergo, E. (2015): "Demografía Empresarial en España: tendencias y regularidades", Fedea
- fDI Markets - http://www.fdimarkets.com
- FECYT – ICONO (Observatorio Español de I+D+i) - http://icono.fecyt.es
- Fernández, María Jesús (2014): "Devaluación interna y crecimiento de las exportaciones", Cuadernos de Información Económica (Funcas), nº 242, September-October
- Fontagné, L.; Toubal, F. (2010): "Foreign Direct Investment and Business Performance", Analyses Économiques, vol. X-02
- Fundación I+E (2010): "La I+D+i de las multinacionales en España como agentes del cambio de modelo económico"
- GEM, Global Entrepreneurship Monitor - http://www.gemconsortium.org/
- Gómez Gómez-Plana, A. and Latorre, M.C. (2014): "Efectos de la IED recibida sobre la economía española", in Rafael Myro (dir) "España en la Inversión Directa Internacional", IEE., pp. 177
- Haskel, J.E.; Pereira, S.C.; Slaughter, M.J. (2002): "Does Inward Foreign Direct Investment boost the productivity of domestic firms?", National Bureau of Economic Research, Working Paper 8724
- Helpman, E.; Melitz, M.; Yeaple, S. (2004): "Export vs FDI with heterogeneus firms", American Economic Review
- INE: Contabilidad Nacional, http://www.ine.es/jaxi/menu.do?type=pcaxis&path=/t35/p008/&file=inebase
- INE: Directorio Central de Empresas, http://www.ine.es/jaxi/menu.do?type=pcaxis&path=/t37/p201/&file=inebase
- INE (2016): Encuesta sobre innovación en empresas, 2014

- INE: FLINT, http://www.ine.es/jaxi/menu.do?type=pcaxis&path=/t37/p227/p01&file=inebase
- Informe PITEC 2013: Financiación y capital humano en la innovación de las empresas.
- Innovation Union Scoreboard 2015, European Commission
- J. Quintanilla, L. Susaeta, R. Sánchez Mangas (2010): "Políticas y prácticas de recursos humanos en el contexto organizativo de la empresa multinacional: Encuesta a gran escala en España", IESE – Fundación BBVA.
- Kowalski, P. Et al. (2015): "Participation of Developing countries in Global Value Chains: Implications for trade and trade-related policies", OECD Trade Policy Papers, No. 179
- Krugman, P. (1998): "Firesale FDI", Working Paper, Massachusetts Institute of Technology.
- Lipsey, R.E. (2000): "Interpreting developed countries Foreign Direct Investment", NBER Working Papers, nº 7810
- Marcolin, L., S. Miroudot and M. Squicciarini (2016): "Routine Jobs, Employment and Innovation in Global Value Chains", OECD Science, Technology and Industry Working Papers
- Miravitlles Matamoros, P.; Núñez Carballosa, A. and Guitart Tarrés, L. (2010): "Internacionalización de la actividad de I+D en las filiales de multinacionales extranjeras en España: ¿Explotación o creación de ventajas competitivas?", Universia Business Review, nº 28
- Monteiro, L.F., Arvidson, N. y Birkinshaw, J. (2008): "Knowledge Flows wthin Multinational Corporations; Explaining Subsidiary Isolation and Its Performance Implications", Organization Science, vol.19, nº 1
- Myro, R. (dir.) (2014): "España en la Inversión Directa Internacional", Instituto de Estudios Económicos
- OCDE – Trade in Value Added - http://stats.oecd.org/Index.aspx?DataSetCode=TIVA2015_C1
- OCDE (2011): "Attractiveness for innovation. Location factors for international investment", OECD Publishing
- OCDE (2013): "Implications of Global Value Chains for Trade, Investment, Development and Jobs", Joint Report by the OECD, WTO and UNCTAD to the G20 Leaders Summit, Saint Petersburg, Russian Federation
- OCDE (2014): "Entrepreneurship at a Glance 2014", OCDE Publishing.
- OCDE (2014): "Global Value Chains: Challenges, opportunities and implications for policy". OCDE, WTO and World Bank
- OCDE: "Aid for Trade 2011: Results Emerging From the Case Stories", OECD/WTO, Paris and Geneva
- PITEC, Panel de Innovación Tecnológica - http://icono.fecyt.es/PITEC/
- Real Instituto Elcano, Observatorio Imagen de España
- Registro de Inversiones: Datainvex, http://datainvex.comercio.es/index.htm
- Registro de Inversiones: Flujos de Inversión Directa, http://www.comercio.gob.es/es-ES/inversiones-exteriores/informes/flujos-inversion-directa/Paginas/detalles-flujos-inversion-directa.aspx
- Registro de Inversiones: Posición en Inversión Directa, http://www.comercio.gob.es/es-ES/inversiones-exteriores/informes/posicion-inversion-directa/Paginas/detalle-posicion-inversion-directa.aspx
- Reputation Institute (2015): "La reputación de España en el mundo: Country RepTrak 2015"
- Richard Florida (2003): "The rise of the creative class"
- Rodríguez, A. y Trello, P. (2014): "Impacto de la Inversión Exterior directa sobre la productividad y el empleo del sector manufacturero español (2001-2010)", Banco de España, Dirección General del Servicio de Estudios
- SCImago (2013): "Análisis de apropiación del conocimiento científico", SCImago - FECYT
- UNCTAD – Transnationality Index (TNI)
- UNCTAD (2013): "World Investment Report 2013 – GVCs: Investment and Trade for Development"
- UNCTAD (2015): "World Investment Report 2015 - Reforming International Investment Governance"

- UNCTAD (2016): "Global Investment Trends Monitor", January 2016
- UNCTAD: Statistics, http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics.aspx
- UNCTAD: World Investment Reports, http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx
- World Bank Group & KPMG (2016): "Paying Taxes 2016"
- WTO, World Trade Organization - https://www.wto.org

09

ABOUT MULTINACIONALES POR MARCA ESPAÑA

Multinacionales por marca España is an association for multinational, multisector companies that are foreign-owned and have a permanent and active presence in Spain. They united to promote the international image and reputation of Spain as a business location and to ensure that their own organisations are fully aware of the country's credentials as an excellent destination for their investments.

In addition, the members of the association highlight the role played by multinational companies in Spain's continuous economic development and in consolidating the country's status as a favourable environment for multinationals.

Multinacionales por marca España is an association that:

1. Brings together multinational companies from various sectors operating in Spain that wish to demonstrate their commitment to Spanish society and the Spain brand.

2. Works in three main areas to achieve its purpose:

    - active support to boosting the Spain brand.
    - promotion of Spain as an ideal investment destination for multinationals.
    - continuous development of Spain as a favourable environment for multinationals.

3. Promotes cooperation with the public sector:

    - to boost the Spain brand and defend the country's common interests.
    - informs politicians and civil servants on the issues of importance to multinationals when considering Spain as a destination with adequate guarantees for the development of their business

4. Works on the image of Spain within multinationals so that it is perceived as a fit location for future investment, owing to its political and social stability, its quality of life, and its competitiveness.

5. Promotes the dissemination of the role played by multinationals in the economic growth and continuous development of Spain.

Member companies

abbvie
accenture
Imperial Tobacco ALTADIS
AON
BAYER
Berlitz A Global Education Company
BERTELSMANN
BT
BUREAU VERITAS
Deloitte.
DHL EXPRESS
DIAGEO
digitalOrigin
EY Building a better working world
facebook
Google
HEINEKEN
HILL+KNOWLTON STRATEGIES
HomeAway
HSBC
HUAWEI
ING
JTI Japan Tobacco International
Ketchum break through
Knight Frank
LEROY MERLIN Da vida a tus ideas
L'ORÉAL ESPAÑA
Lufthansa
ManpowerGroup
MEDIASET españa.
Munich RE
Regus
Rödl & Partner
SIEMENS
STIHL
THALES
uem Universidad Europea de Madrid LAUREATE INTERNATIONAL UNIVERSITIES
weber shandwick engaging always.
ZURICH

multinacionales
por marca España

Paseo de la Castellana, 95 - planta 15 | Edificio Torre Europa
28046 Madrid - Spain | Tel.: + 34 91 418 50 71
www.multinacionalesmarcaespana.org
secretaria@multinacionalesmarcaespana.org