Multinacionales con España
10 años

2013-2023

A DECADE OF UNINTERRUPTED GROWTH IN FOREIGN DIRECT INVESTMENT IN SPAIN

Future Outlook

Prepared by::

With the support of:

INDEX

WELCOME

WELCOME

In 2013, the Multinacionales con España association was created with the aim of promoting knowledge of the contribution of foreign multinationals to the Spanish economy and society. The association works to make Spain an attractive destination for foreign investment, actively participating in the Spanish public agenda. It also helps create a favorable environment for the sustainable growth of global companies.

During this decade, the association has carried out important work in this regard, working in areas such as public-private collaboration, carrying out studies and analysis, and communicating and disseminating the contribution of multinationals to Spain.

Specifically, with this publication, the association aims to highlight the role of multinationals with foreign capital in the growth of investment in Spain during the last decade, in the context of the country's competitive factors. The examples of good practices it includes reflect the companies' commitment to job creation and business growth in Spain. During this time, they have opened new production and innovation centers, invested in the development of innovative technologies and supported research, among other milestones.

The association considers that its role is to support the action of governments in terms of progress and improvement of the image of Spain abroad. It will continue working to promote foreign investment in Spain, in a determined commitment to innovation, sustainability and social well-being.

Paloma Cabrera
Chairwoman of Multinacionales con España

INTRO DUCTION

In a time of uncertainty and global change driven by technology, a country's reputation is crucial for attracting foreign investment and fostering international business development.

In this context, the Asociación Multinacionales con España (Spain's Multinationals Association) works to promote Spain as an attractive and reliable destination for foreign investment by highlighting its strengths and encouraging collaboration between multinational companies and Spanish institutions.

In the last decade, the Association has led various important projects that have notably enhanced Spain's reputation and established it as a leader in different global economic sectors. These efforts included building partnerships between the public and private sectors to support multinational companies and conducting studies on how these companies contribute to Spain's economic and social progress.

Over the past decade, the Association of Multinationals with Spain has collaborated with international companies to promote innovation, technology transfer, quality job creation, and a commitment to sustainability.

Through sharing good business practices and encouraging cooperation between companies and local actors, the association has significantly impacted Spanish society and fostered a more competitive business environment.

In short, over the last ten years, the Association of Multinationals with Spain has actively boosted Spain's appeal for foreign investment by forming strong partnerships between multinational companies and Spanish institutions. Their efforts have shown how foreign companies contribute to Spain's economic growth and sustainable development.

The Association of Multinationals with Spain's future plans are outlined in the document "Attract: Toward 2030." This document lays out the necessary steps and reforms to attract increased global investment to Spain, capitalizing on the opportunity presented by the Next Generation EU funds.

This report builds upon the ideas in the "Attract" document by providing analysis and insights using both quantitative and qualitative information about Foreign Direct Investment (FDI) and the activities of Multinational Enterprises (MNEs), which are key players in international investment. Our main goals in this analysis have been to:

- Continue positioning the Association of Multinationals with Spain as a provider of benchmark studies in FDI.
- Provide a comprehensive analysis of the current state of global investment to better understand the suggestions in the "Attract: Towards 2030" report.
- Emphasize the role of Foreign Multinational Companies in driving investment growth in Spain over the last decade, considering the country's competitive factors.
- Analyze Foreign Direct Investment flows from 2013 to 2022 and project the growth for the period between 2024 and 2030, considering the influence of the EU Next Generation Funds.

This report focuses on the Association's achievements over the last ten years, starting from its establishment in 2013, and its commitment to position Spain among the top destinations for international investment. Its findings are summarized in four sections.

The first section examines the growth in Foreign Direct Investment (FDI) in Spain. The second section goes over the competitive factors that make Spain an appealing destination for foreign company investments. The third section discusses foreign companies' contribution to enhancing Spain's attractiveness as a destination for foreign investment. Lastly, the report predicts how Foreign Direct Investment in Spain might progress until 2030, taking into account different possible scenarios under which the global situation remains relatively stable.

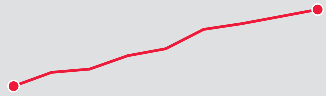
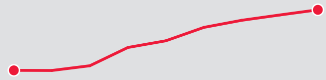
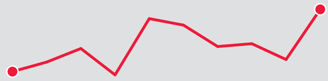
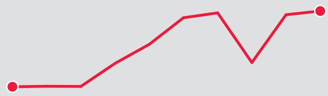
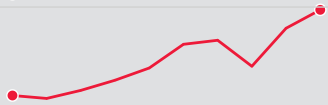
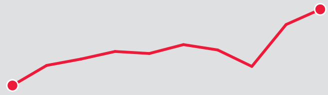
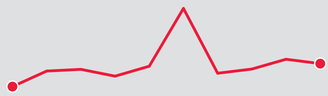
EXECUTIVE
SUMMARY

A DECADE OF SUSTAINED GROWTH OF FOREIGN INVESTMENT IN SPAIN

Foreign Direct Investment (FDI) in Spain has grown robustly over the ten years since the establishment of the Association of Multinationals with Spain.

- The stock of FDI in Spain accounted for **56.3% of the GDP in 2022**, surpassing the **global average (44%)**, the **OECD average (51%)**, and other major countries like France, Germany, and Italy. Over the past decade, the FDI share in the Spanish economy has **increased by 9.2** percentage points.
- Spain's openness to **foreign investment surpasses that of several major European countries**, including Germany, Ireland, France, and Italy, exceeding the OECD average.
- Foreign-owned companies in Spain have generated **nearly 600,000 additional jobs** since 2013, a **50% increase over the decade, reaching 1,765,491 jobs**.
- In the **last decade, Spain has more than doubled the number of annual *greenfield* projects received**, with a value **five times higher than in 2013** and a projected job creation from these projects that has also multiplied by more than three.
- **Spain excels in offering a balanced blend of cost-effectiveness, value, and risk management**. Businesses operating in Spain can leverage a distinctive mix of resources and advantages, ensuring high levels of quality and efficiency at a competitive cost.

Evolution of foreign investment in Spain, 2013-2022

	2013	2022*	CHANGE	EVOLUTION 2013-2022
FDI Inward Stock *Investment Registry* *Millions of Euros*	303,364	**529,877**	74.7%	
Employment stock *Investment Registry* *Jobs*	1,172,878	**1,765,491**	50.5%	
Gross Inward FDI flows *Investment Registry* *Millions of Euros*	17,288	**34,425**	99.1%	
Inward FDI Flows - New Investment *Investment Registry* *Millions of Euros*	12,769	**21,969**	72.1%	
Inward FDI Flows - Acquisitions *Investment Registry* *Millions of Euros*	3,279	**12,446**	279.6%	
Greenfield projects announced *fDi Markets* *Number of projects*	410	**860**	109.8%	
Greenfield jobs announced *fDi Markets* *Jobs*	28,643	**96,144**	235.7%	
Greenfield capex announced *fDi Markets* *Millions of USD*	9,133	**44,564**	387.9%	
M&A operations announced *Moody's* *Acquisitions*	158	**458**	189.9%	
Value of M&A announced *Moody's* *Millions of USD*	11,798	**38,946**	230.1%	

* The most recent data covers the year 2022 for investment flows, greenfield projects, and mergers and acquisitions, while information for employment, investment position, and fixed tangible assets is available for the year 2021.

FOREIGN MULTINATIONAL COMPANIES IN SPAIN HAVE CONTRIBUTED SIGNIFICANTLY TO STRENGTHENING THE COUNTRY'S COMPETITIVE ADVANTAGES

The presence of foreign multinational companies in Spain contributes to economic growth, strengthens the local industrial sector, and promotes talent development. It also facilitates the transfer of knowledge, encourages collaboration among businesses, and stimulates healthy competition.

- In the **last decade, subsidiaries of foreign companies in Spain have outperformed** the overall business landscape in the country in terms of productivity, added value, job creation, and wages. This has contributed significantly to the Spanish economy, **driving growth,** internationalization, and high-value investment in Spain.
- **Spain is well-positioned to maintain a positive trend** in attracting foreign investment, given its status as the economy set to receive the highest amount of EU funds in the current period **until 2026.**
- **Achieving a long-term consensus on education and R&D+i is essential for Spanish society.** To accomplish this, all stakeholders must focus on developing key competencies and investments, leveraging the opportunity presented by the Next Generation EU funds.

Evolution of the economic impact of foreign subsidiaries on the Spanish economy, , 2012-2021

	2012	2021	CHANGE	EVOLUTION 2012-2021
Foreign Affiliates	6,549	**14,761**	125.4%	
Turnover	429,096	**591,963**	38.0%	
Personnel costs	51,324	**86,998**	69.5%	
Exports	128,167	**158,634**	23.8%	
Employment	1,234,011	**2,014,409**	63.2%	
Production value	271,790	**380,426**	40.0%	
Value added at factor cost	84,239	**137,599**	63.3%	
Gross investment in tangible assets	13,539	**26,327**	94.5%	
Purchases of goods and services	354,626	**471,539**	33.0%	

Source: Own elaboration, based on the INE-FILINT survey (2014-2023). Millions of euros

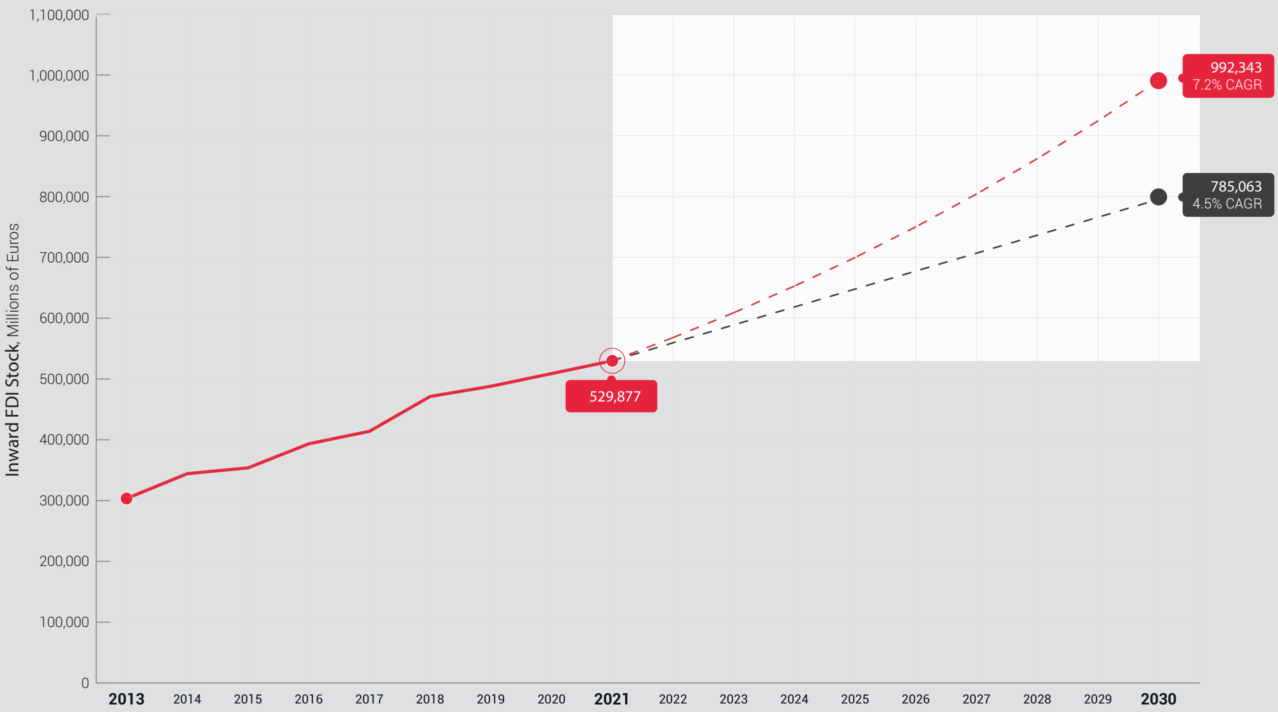
A FUTURE SCENARIO FOR FDI THAT **WE CAN ACHIEVE**

Achieving an aspirational scenario involves maintaining a similar compound annual growth rate between 2023 and 2030 as experienced between 2013 and 2021, resulting in an 87% increase in FDI stock compared to 2021.

- To achieve these figures, an estimated average of **annual net investment flows exceeding €42** billion between 2023 and 2030 would be required.
- Maintaining **macroeconomic stability** in an environment without **external shocks is crucial.** Regulatory predictability and simplification are also essential, not only in terms of FDI regulations but across all regulations affecting Multinational Enterprises (MNEs) in Spain.
- The *NextGen EU* funds **can make a significant difference in achieving an optimistic scenario.** If the multiplier effects exceed expectations and boost the profitability of international investment in Spain, the stated objectives will become more attainable.
- The **control mechanisms for investments must be swift and transparent**, and they should be complemented by instruments that promote and facilitate foreign investments in Spain.

- Simultaneously, there is a need to create a comprehensive plan, in collaboration with the Association of Multinationals with Spain, **to attract international investment to Spain for the years 2025-2030**. The ultimate objective is to double the existing stock of Foreign Direct Investment (FDI) in Spain by 2030.

Projections of the investment position - stock of FDI up to 2030,
Millions of euros



Source: Own elaboration

A DECADE OF GROWTH
IN SPAIN

CHAPTER.**ONE**

A DECADE OF GROWTH IN SPAIN AMIDST A CHALLENGING AND CHANGING ENVIRONMENT (2013-2022)

From 2013 to 2022, Spain's economy remained quite stable, despite the 2012 debt crisis that ended a financial downturn dating back six years. This stability continued until the COVID-19 pandemic. Indeed, once the risks of the debt crisis were averted, Spain geared up for growth in 2013, even though it faced record-high unemployment (26.14%), a high debt-to-GDP ratio, and increasing income inequality.

The measures taken by the European Central Bank bore fruit, and the Spanish economy grew at rates close to or above 3% for more than half a decade, with a gradual decrease in unemployment and stable prices.

Between 2014 and 2019 Spain's economy grew again, but this progress was interrupted by the global economic collapse in 2020-2021. The shutdown of the economy in the second quarter of 2020 caused the most significant drop in Spain's real GDP (as well as other European economies) during peacetime, with a decline of 10.8%. However, thanks to the significant support provided to individuals and businesses, the impact on employment was less severe. Consequently, the recovery was quick, with a 5.0% growth in 2021 and 5.5% in 2022, two points more than the eurozone's growth rate.

Thus, Spain experienced remarkable growth from 2013 to 2022. However, it's expected that this growth will slow down in 2023 and 2024, although it's projected to stay above the European average according to the latest forecasts from the OECD in October.

Despite the strong growth in the past two years, the Spanish economy only reached its pre-pandemic level by the first quarter of 2023[1]. This recovery was underpinned by solid performance in the external sector[2], employment growth - backed by controlled wages - and fiscal support, which contributed to foster private sector activity.

In 2020, there was a significant change in the global economic scenario due to the pandemic and an energy crisis, with mobile epicentres from the Asian continent to Europe and America. These changes didn't just slow down the economy; they also caused disruptions in international supply chains. As a result, there were shifts in how and where companies operated.

The most recent OECD economic outlook report from June 2023 pointed out changes resulting from the pandemic, which were worsened by the 2022 conflict in Ukraine, and now possibly by the new conflict in the Middle East. These changes have caused a tenfold increase in obstacles to global trade among major trade blocs within the last five years.

Changes in global trade are making Europe's position weaker against the United States and China. New trade barriers, like widespread incentive programs, are leading to the relocation of production and commercial exchanges, favoring closer and supposedly safer countries.

Amid this situation, some analysts believe **Spain could be in a better position than its European partners in the changing global panorama, which tends to shorten supply chains.**

1.- Funcas (2023), Cuadernos de Información Económica 295, July - August 2023
2.- Last year, net exports contributed 2.4% to the growth of the Spanish GDP

This is because Spain is increasing trade with other EU countries, despite the decline that other major European economies are experiencing.

Certainly, as Spain's trade improves with its European partners due to relocations, it's vital to focus on foreign investment trends in our country: FDI is crucial for growth, considering that investors significantly impact these geographic dynamics. Indeed, analyzing the factors behind the last decade's foreign investment growth is essential for sustaining this trend in the future.

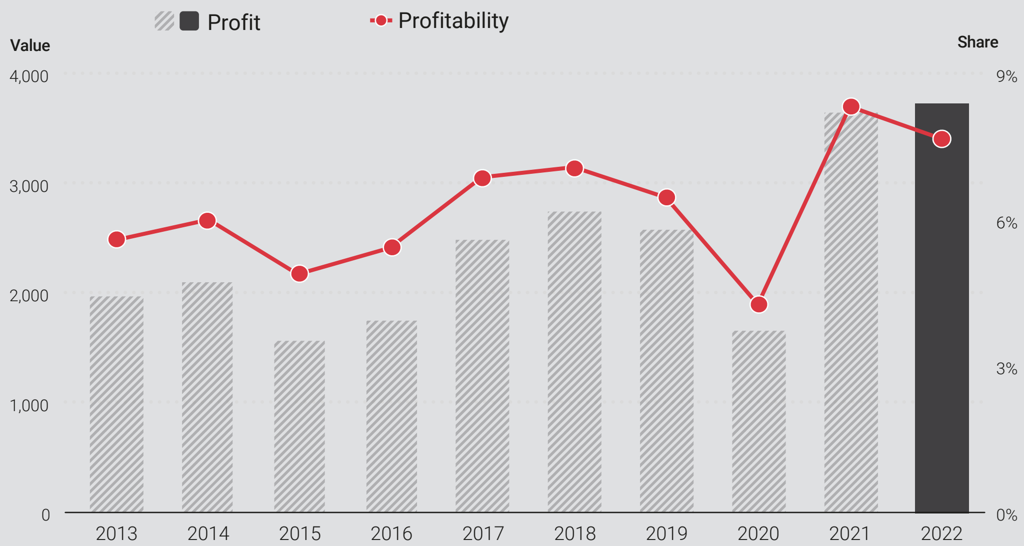
CHAPTER ONE.ONE Global FDI in a Changing Environment with Heightened Risk Perception

The current international cross-border investments are characterized by geopolitical, economic, and monetary tensions, which have heightened investors' uncertainty.

The decline in global investment flows last year (-12% compared to 2021) was due to various factors like the Ukraine war, inflation, and debt pressures. The 2023 international investment scenario seems to have absorbed these initial impacts, but there's still ongoing downward pressure reflected in weak data in cross-border mergers, acquisitions, and international project financing.

A more positive outlook emerges from the increased number of newly announced investment projects, which rose by 15% in 2022. Early data for the first months of 2023 indicates a similar positive trend. If this trend continues by the end of the year, it suggests that the trends in international investment for productive assets would be more favorable than the initial global FDI data for 2023 suggests.

Figure 1. Profit levels and profitability of the largest Multinational Enterprises (MNEs), 2013-2022, Billions of USD and %



Source: UNCTAD (2023), based on Refinitiv SA data.

Likewise, multinational companies have seen high profits over the last two years, especially in extractive industries. Despite a dip in 2020 due to the pandemic, the trend has generally been upward since 2015. These significant profits could encourage companies to anticipate new investment opportunities in a reduced risk scenario, leading to the completion of pending mergers and acquisitions.

In any case, global investment flows are changing, becoming more regionalized based on where international production occurs. At the same time, investment sustainability is also being reappraised in this new environment following the consequences of the pandemic.

International investment flows are not solely influenced by profitability, the global regulatory environment also plays a significant role in shaping global cross-border investments and ensuring their sustainability.

Indeed, in recent years, regulatory activity concerning international investment has notably intensified, both in terms of facilitation and restrictions on investment. The Covid 19 pandemic was no exception, as control measures increased, particularly in developed countries.

In 2022, for example, global investment regulations increased. The majority (72%) of the measures implemented were facilitative, while 28% of them were restrictive in nature.

Likewise, the trend to implement prior authorization mechanisms for investment projects based on strategic or national security criteria, primarily by developed countries, increased last year. The number of countries with screening mechanisms in place rose to 37. These countries, including Spain, account for 68% of the global stock of Foreign Direct Investment (FDI). According to UNCTAD, the number of M&A transactions withdrawn or thwarted due to these regulatory control mechanisms increased by 33% in 2022.

Another global trend, as reflected in the latest UNCTAD report, is related to the review of global Foreign Direct Investment (FDI) requirements in sectors relevant to achieving the Sustainable Development Goals (SDGs) of the 2030 Agenda. The midpoint revision of these goals highlights a growing financing gap, which has increased from an estimated $2.5 trillion in 2014 when the SDGs were adopted to the current annual figure of $4 trillion. The largest gaps are found in energy, water, and transportation infrastructure, primarily affecting developing economies. These economies now absorb 71% of global FDI, compared to just 46% in 2013.

CHAPTER ONE.TWO — Spain's performance compared to other countries in terms of Foreign Direct Investment

Following the global financial crisis, Spain has addressed various economic imbalances, including external and certain macroeconomic issues that built up during the prior growth phase. The economy has shown **more stable growth**, notably marked by reduced debt in households and businesses.

In essence, **Spain's economy**, with a cyclic pattern similar to Europe but greater amplitude due to its production structure, has experienced significant growth in the past decade. The **external sector** has played a crucial role in contributing to the country's resilience. Notably, Spain has shown a more favorable evolution in the **balance of goods and services compared to other major economies in the euro area**[4] since the pre-pandemic period.

3.- authorization mechanisms for investments based on strategic or security criteria have been implemented in most OECD countries.
4.- Bank of Spain (2023).

In addition to its dynamism, Spain's domestic **market size, the fourth largest in the Eurozone**, offers privileged access to growing markets in Europe, the Americas, and Africa. This stands as one of Spain's key selling points for attracting foreign investment.

The **patterns observed in Foreign Direct Investment (FDI)** often reflect changes in significant economic indicators such as the Gross Domestic Product (GDP), trade, and domestic investments. In Spain, these FDI trends have mirrored the trajectory of e**conomic growth-related factors over the past ten years**.

Ten years of investment dynamism

The stock of foreign investment in Spain serves as a crucial indicator for evaluating investors' sustained confidence in the economy. The investment position, which includes the value of stakes held by foreign investors and net loans to resident foreign companies, offers a comparable assessment of countries' investment appeal, allowing for comparisons within the OECD framework.

According to OECD data, in 2022, Spain witnessed an increase in this indicator, reaching **$787.277 million, reflecting a 23.3% surge from the figures recorded in 2013. Over the same period, Spain's growth in investment stock outpaced that of Germany or Italy**. Though France saw a slightly higher growth rate (25.8%) than Spain, the United Kingdom, as the leading investor in Europe, experienced a remarkable 78% growth in this variable.

Among OECD members, **Spain ranks as the tenth country with a significant volume of FDI stock. Within the EU, Spain stands third**, behind Germany and France, in terms of investment stock, once we exclude countries acting as conduits for investment or with particularly favorable tax regimes (such as the Netherlands, Luxembourg, or Ireland).

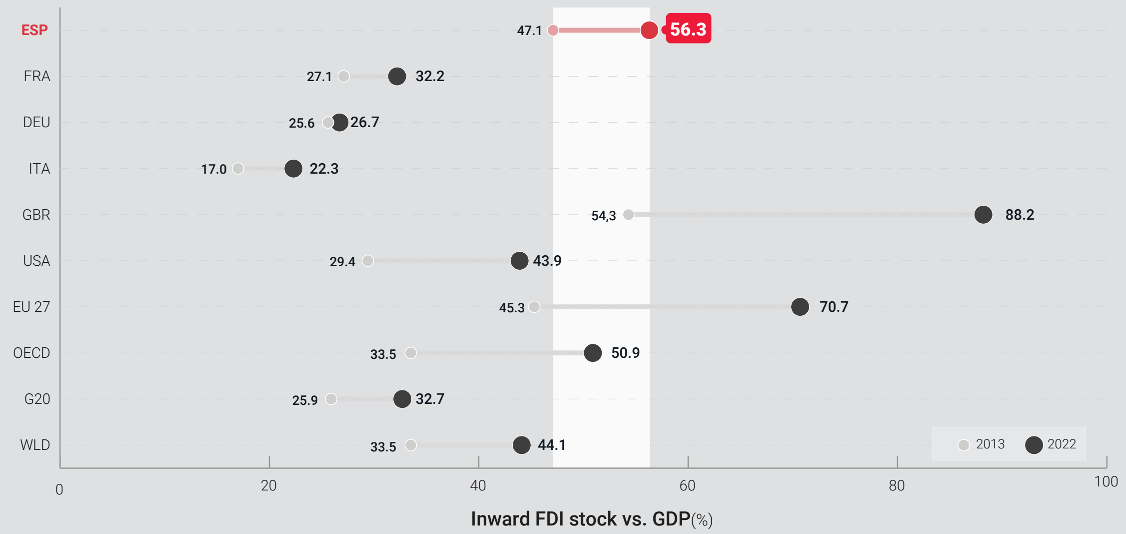
A more relevant approach to understanding the impact of foreign capital companies in the economy is analyzing the stock in relation to the population and GDP. Considering the four major European countries, **Spain leads with an investment stock of $16,774 per capita**, surpassing Italy, Germany, and France, yet trailing the indisputable European leader, the United Kingdom, with slightly over $40,000 per capita.

The **FDI stock in Spain represented 56.3% of the country's Gross Domestic Product (GDP) in 2022. This proportion exceeded the average percentage of FDI contribution to GDP on a global scale (44%) and even surpassed the OECD average (51%). Notably, it surpassed the rates seen in other major European economies like France, Germany, and Italy**. Only smaller economies or those with unique tax treatments within the European Union, alongside countries like the UK and Canada, display higher rates of foreign investment contribution to their national economies.

Additionally, this percentage has been increasing since 2013. Over the past 10 years, the participation of FDI in the Spanish economy has increased by 9.2 percentage points.

However, while this upward trajectory is significant and positive, it also indicates a potential limitation: the structure and nature of the Spanish economy may hinder ambitions to drastically increase the contribution of FDI.

Figure 2. Stock of FDI received compared to GDP, 2013-2022, Percentage



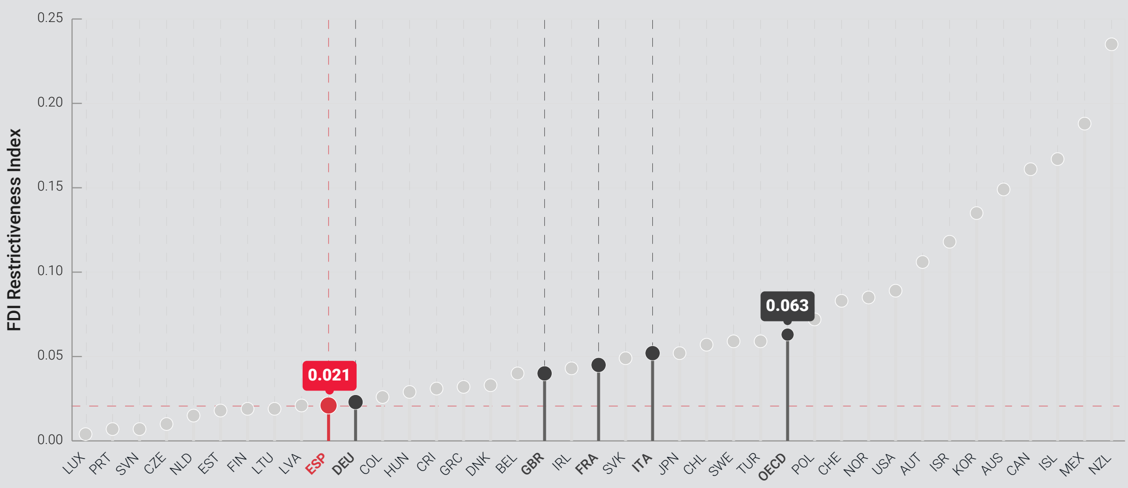
Source: Own elaboration, based on OECD data (2023)

The OECD provides essential data on Foreign Direct Investment (FDI) restrictions within its member countries. Particularly, the FDI Restrictiveness Index measures various constraints imposed by a country on foreign direct investments.

The FDI Restrictiveness Index evaluates limitations in four key areas: capital from foreign sources, discriminatory selection or approval mechanisms, restrictions on key foreign personnel, and operational limitations. This index offers insights into the extent of restrictions that might affect foreign investment in different economies.

The latest index indicates that **in 2020, Spain was among the larger economies that showed a more open attitude towards foreign investments** compared to other countries like Germany, Ireland, France, and Italy. Spain's level of openness surpassed the OECD average.

Figure 3. FDI Restrictiveness Index, 2020



Source: OECD

A complementary perspective to the data provided by the OECD comes from the Foreign Investment Registry (RIE), managed by the State Secretariat for Trade. It's important to examine the evolution of employment associated with the investment stock during the last decade, specifically between 2013 and 2021, the latest year for which data on this variable is available.

Thus, **employment resulting from foreign companies** operating in Spain **increased by over 50%** during the last decade, reaching **1,765,491 jobs** (600,000 more since 2013). Meanwhile, Spain's overall employment expanded by only 21% during the same period, **less than half the growth rate of jobs associated with foreign investment**.

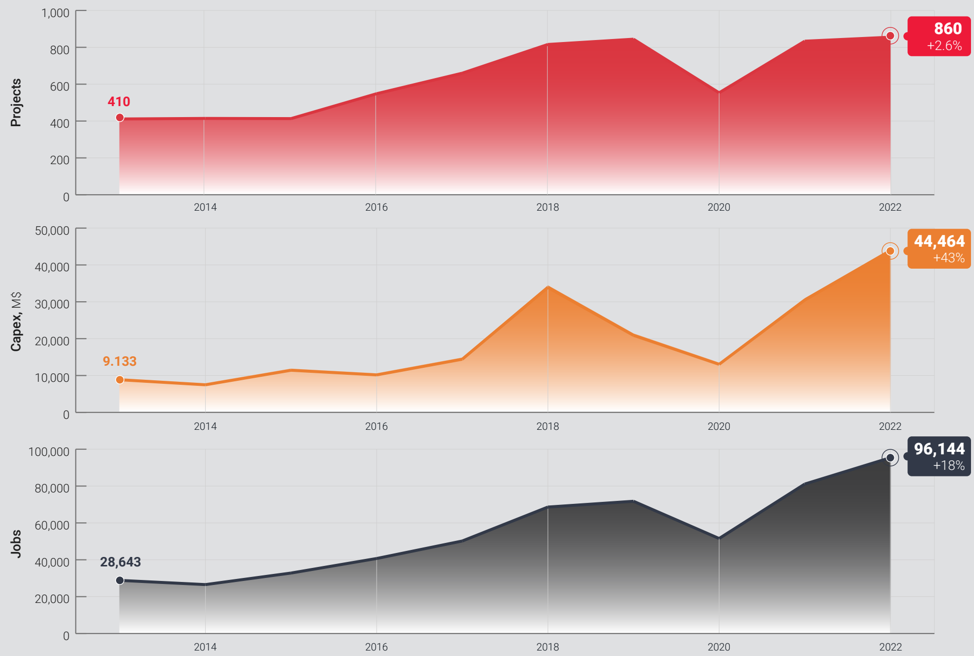
Undoubtedly, foreign multinational companies significantly aided Spain's employment recovery over the last decade. Indeed, **jobs linked to accumulated FDI grew to almost 9% of the total national workforce**.

New investment projects in Spain have doubled over the last ten years

Over the last twenty years, *fDi Markets* (*Financial Times*) has maintained a database that tracks information about new global cross-border investment projects (*greenfield projects*). **In 2013, Spain ranked as the tenth top recipient worldwide** for these projects, with 410 such projects. These projects brought in an estimated $9,133 million worth of investments, creating 28,643 jobs. By 2022, the number of announced projects in Spain had increased to **860, making it the third top country in Europe** after the United Kingdom and Germany, valued at $44,588 million and announcing 96,144 new jobs.

Spain significantly enhanced its position in 2022 to become the sixth top receiver globally for such investments, marking a substantial four-step improvement from its 2013 ranking. Spain thus gains a greater share in the global market for greenfield projects.

Figure 4. Cross-border Greenfield projects announced in Spain, Millions of USD, jobs and projects

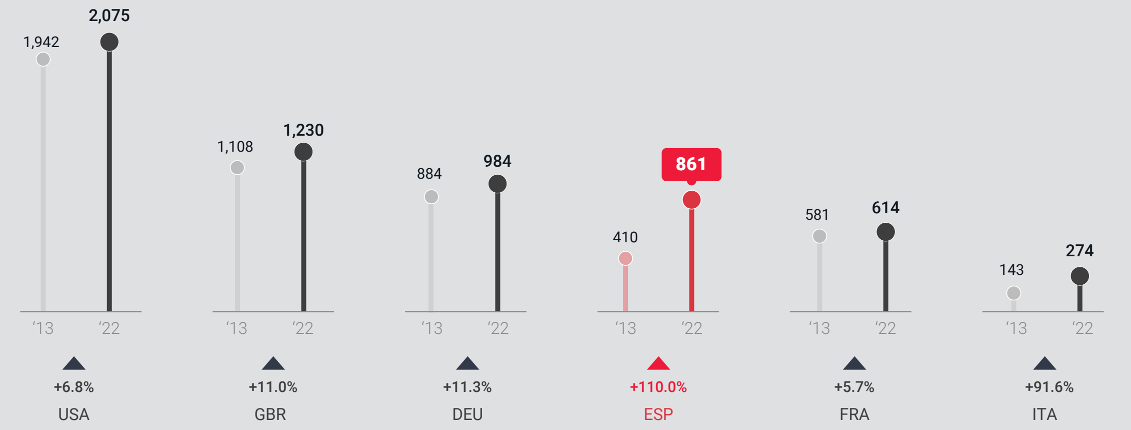


Source: Own elaboration, based on fDi Markets data

Throughout **the last decade, Spain has more than doubled the annual number of *Greenfield* projects it has received**, with a value five times higher than that recorded in 2013 and an anticipated job creation that has also increased by more than threefold.

These announced projects are a clear sign that Spain is attractive to multinational companies seeking investment opportunities.

Figure 5. Number of announced cross-border greenfield projects by destination, 2013-2022



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* Last available year: 2022 for flows, greenfield projects, and M&A; 2021 for employment, investment position, and fixed tangible assets

CHAPTER ONE.THREE The geographical and sectorial origin of FDI in Spain has become more complex in the last decade

Most jobs generated by Foreign Direct Investment (FDI) in Spain between 2013 and 2022 were primarily driven by investors from Europe and the United States

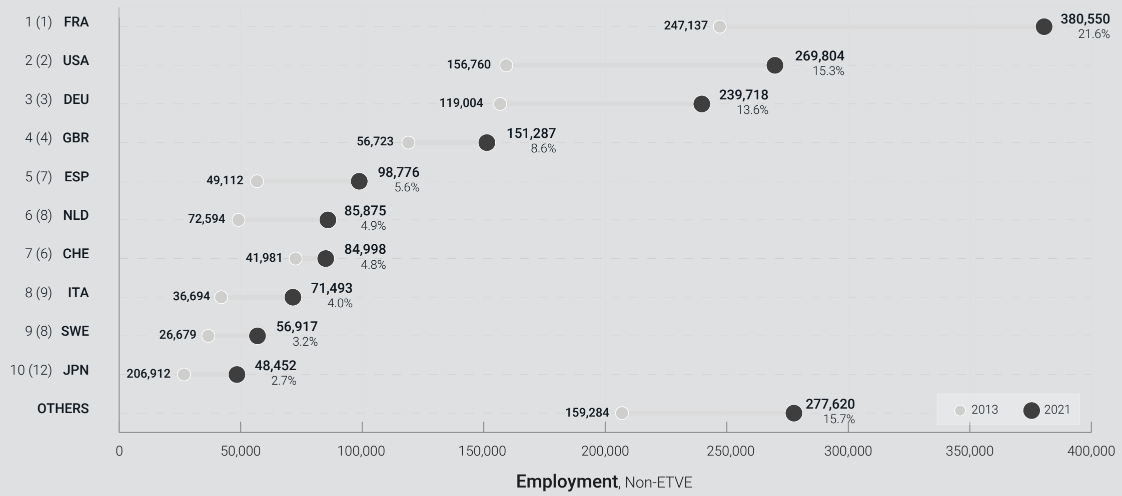
The **total jobs created by the stock of foreign investment in Spain amount to 1.76 million**, constituting approximately **9% of the nation's workforce**. Over seven years, **this figure has grown by 51% from the 2013 count**, adding more than 593,000 jobs to the country's total employment.

Although nearly twenty investor countries accounted for over 10,000 jobs in Spain in 2021, the concentration of employment in the top ten countries has historically been high in the country. In 2013, these ten countries, all European except for the United States, accounted for 87% of the employment. By 2021, this fraction had slightly decreased to 84%, with Japan entering as the first Asian country. These top ten countries, led by France, the United States, Germany, and the United Kingdom, contributed to 88% of the employment growth between these two years.

The main contributors to employment in Spain have remained relatively stable, despite minor shifts due to changes in ownership of significant companies.

The employment growth in Spain largely comes from traditional investor nations. However, there was a notable increase in employment from companies based in Mexico, Ireland, Russia, and Qatar over the period from 2013 to 2021. On the other hand, Chinese companies faced a decline in their employment levels in 2021 due to changes in the ownership of a building services company, now under American ownership.

Figure 6. Top investing countries in Spain by employment stock, 2013-2021



Source: Own elaboration, based on Investment Registry data. * In parentheses, position in 2013. ** ESP: Circular Investments (investments in Spain made by subsidiaries of Spanish companies abroad)

5.- The reason for the delay in the publication of stock data is the time companies take to submit their annual reports after closing their accounts (often in June). After submission, it takes additional time for data processing and normalization. Consequently, there is an 18-month gap between the end of the fiscal year and the publication of this information

Even though European and American investors maintain a leading position, the landscape of investment is gradually becoming more geographically diverse

The primary countries investing in Spain, in terms of their investment position, hold a significant share of the total investment, and have seen a reduction in their collective share from 82% (concentrated in the top 10 countries) in 2013 to 78% in 2021.

The composition of the top ten countries in terms of investment stock hasn't changed, although there have been notable shifts in their order and relative importance. These ten countries contributed significantly (73%) to the increase in investment stock between 2013 and 2021.

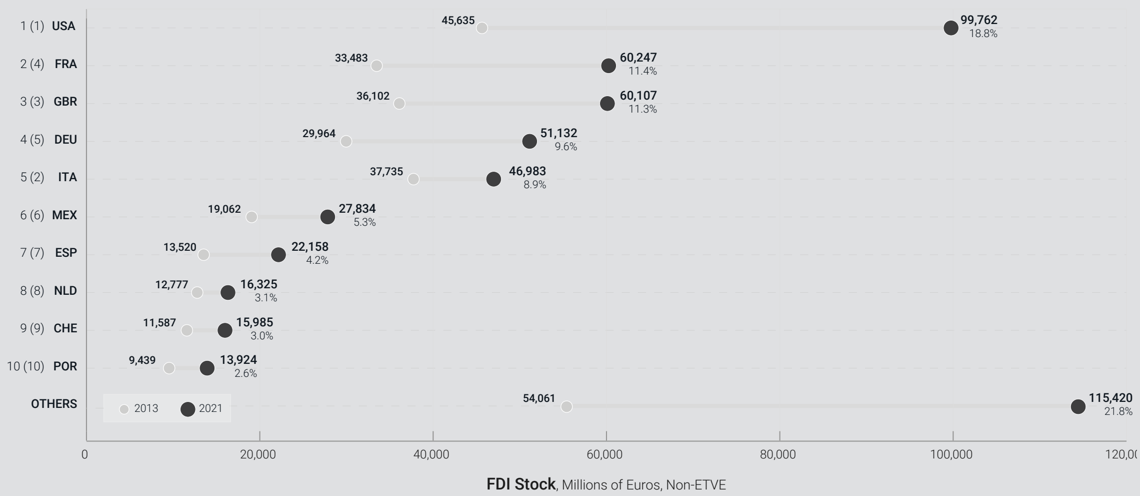
Over the last eight years, the **United States** has held the top position as the primary investor in Spain in terms of investment stock, accounting for 18.8% of the total in 2021.

France and the **United Kingdom**, second and third in 2021, have seen similar stock evolutions since 2013, keeping a steady 11% to 12% share each. **Germany** held the fourth position (9.6% of the total in 2021), nearly tripling its stock since 2007, with a notable increase in 2018.

Italy's position, which led Spain's stock between 2009 and 2012, is significantly influenced by its investments in the energy sector, particularly by the acquisition of Endesa by Enel. It accounted for 8.9% of the stock in 2021.

The list of top investors in terms of stock is completed by Mexico, subsidiaries of Spanish companies abroad, the Netherlands, Switzerland, and Portugal. Some non-EU economies like Japan, Australia, China, Canada, or Argentina have shown significant increases in stock since 2013. If this trend continues, they might join the previous list in the coming years.

Figure 7. Main investor countries in Spain by investment position, 2013-2021



Source: Own elaboration, based on Investment Registry data
* In parentheses, position in 2013. ** ESP: Circular investments (investments in Spain by subsidiaries of Spanish companies abroad)

The manufacturing industry has been the main recipient of FDI; the real estate sector has experienced the most growth in the last decade

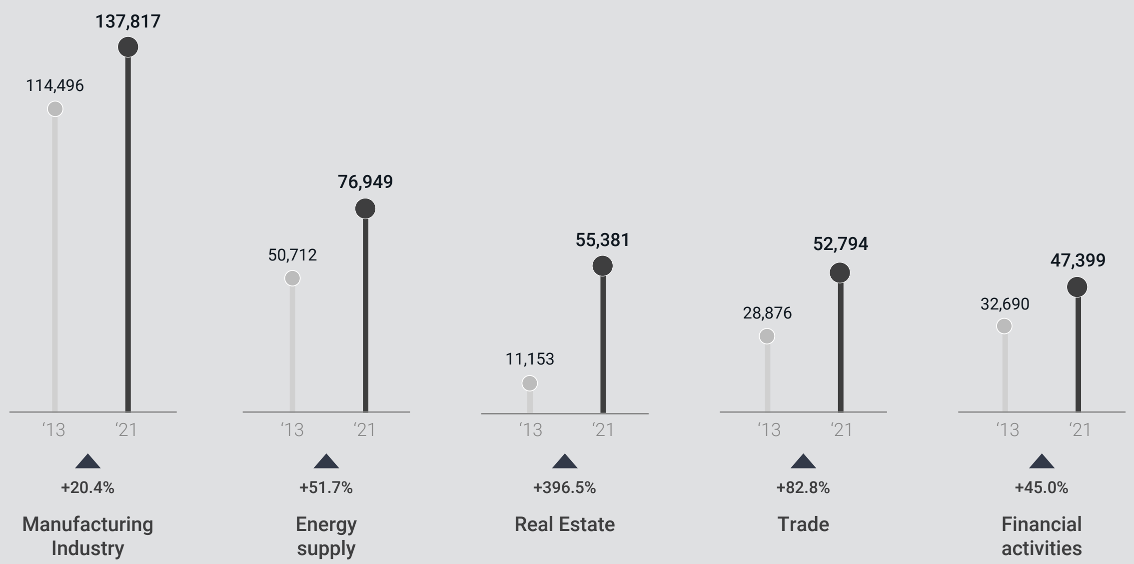
The **Manufacturing Industry**, which was the primary receiver of foreign investment stock, has seen a decrease in its relative share from 38% in 2013 to 26% by the end of the period. This reduction suggests a change in the sector's importance within the overall foreign investment landscape in Spain. The industry still holds a substantial absolute position, with approximately €137,817 million in investment stock by the end of 2021. There are six subsectors within manufacturing that each individually account for over €10 billion in investment stock .

The **Energy Supply** sector has retained its position as the second-largest receiver of foreign investment over the decade, but its proportion has also decreased (from 16.7% of the total to the current 14.5%). Almost all of the increase in the stock position in absolute terms occurred between 2019 and 2021, primarily due to investments from Italian companies and, to a much lesser extent, Australian ones.

The S**ervices sector** augmented its share in foreign investment stock over the past decade, rising from 40% to over 48% in 2021. **Real Estate** Activities have seen a fivefold increase since 2013 and constituted the third-largest sector in terms of foreign investment stock in Spain in 2021, holding €55,381 million (10.5%) of the total. Its growth has been the most significant among all sectors in absolute terms.

The sectors of **Commercial Activities** and **Financial and Insurance Activities** held the fourth and fifth positions, respectively, in terms of the accumulated foreign investment stock in Spain over the past decade. They ranked ahead of the **Information and Communications**, and **Construction** sectors, both of which saw substantial increases in absolute terms, with both surpassing €30 billion in stock position in 2021.

Figure 8. Main sectors receiving FDI stock - investment position 2013-2021



Source: Own elaboration, based on Investment Registry data

6.- Sectors led by Manufacture of other non-metallic mineral products, Chemical industry, Manufacture of motor vehicles, Manufacture of pharmaceutical products, Food industry, and Metallurgy.

CHAPTER ONE.FOUR The positive externalities of foreign subsidiaries' activity in the Spanish economy

The number of foreign subsidiaries in Spain has more than doubled in the last decade

Despite alterations in the methodology of the INE's Foreign Subsidiaries Statistics[7] , which may cause some distortions when comparing the latest data to that from a decade ago. this survey remains crucial for analyzing the impact of foreign subsidiaries on the Spanish economy.

The analysis conducted by the INE regarding various key indicators (Table 2) over the past decade indicates a highly positive trend in both the number of companies and their core performance metrics.

According to the latest INE survey (published in September 2023), in 2021, Spain had 14,761 foreign company subsidiaries in industrial, commercial, and non-financial service sectors, more than double the number in 2012 (+125%)[8].

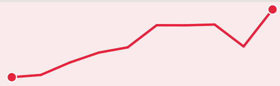
Though they make up only 0.5% of total businesses, their impact is substantial: they represent 27.5% of the national turnover, contribute almost one-third of the country's total business investments, handle 28.5% of the goods and services purchases, and pay higher salaries, resulting in their personnel expenses making up 24.8% of the total spending.

Over the last ten years, foreign company branches in Spain have shown stronger growth than the country's entire business sector. Their investment in physical assets almost doubled, making up 9.1% more of the total compared to 2012. Also, their employee expenses increased by 69.5%, representing 3.6% more of the total.

It should be noted that when comparing the number of foreign branches to domestic companies, the way in which the branches are distributed among various sizes of businesses differs significantly. Foreign branches often appear more among larger-sized businesses than among smaller ones, impacting direct comparisons and making it difficult to interpret the number of businesses as a standalone indicator[9].

7.- In 2020, the methodology for implementing the "Company" statistical unit was modified in accordance with the regulations of the European Union (696/93). This modification primarily impacted the counting of foreign subsidiaries. Additionally, in 2023, the Business Statistics by Group Membership.
8.- The figure for 2012 based on statistical units called "Companies" has been estimated using the correction factor calculated in 2018, a year for which data is available using both methodologies.
9.- In 2021, subsidiaries of foreign companies in sectors studied by the INE made up 0.3% of all small businesses but represented 30.1% of large companies (250 employees or more) and nearly 40% of large industrial firms. Over the past decade, they decreased slightly among companies with 10 to 100 employees and more in those with 100 to 999 employees. But their presence increased among companies with 1,000 or more employees, rising from 35.8% to 37.4% of all such companies.

Summary Table 2. Evolution of the impact of foreign subsidiaries on the Spanish economy, 2012-2021

	2012	2021	CHANGE	EVOLUTION 2012-2021
Foreign Affiliates	6,549	**14,761**	125.4%	
Turnover	429,096	**591,963**	38.0%	
Personnel costs	51,324	**86,998**	69.5%	
Exports	128,167	**158,634**	23.8%	
Employment	1,234,011	**2,014,409**	63.2%	
Production value	271,790	**380,426**	40.0%	
Value added at factor cost	84,239	**137,599**	63.3%	
Gross investment in tangible assets	13,539	**26,327**	94.5%	
Purchases of goods and services	354,626	**471,539**	33.0%	

Source: Own elaboration, based on the INE-FILINT survey (2014-2023). Millions of euros.

The varying influence on different regions due to the growth of investment stock and fixed tangible assets from 2013 to 2022

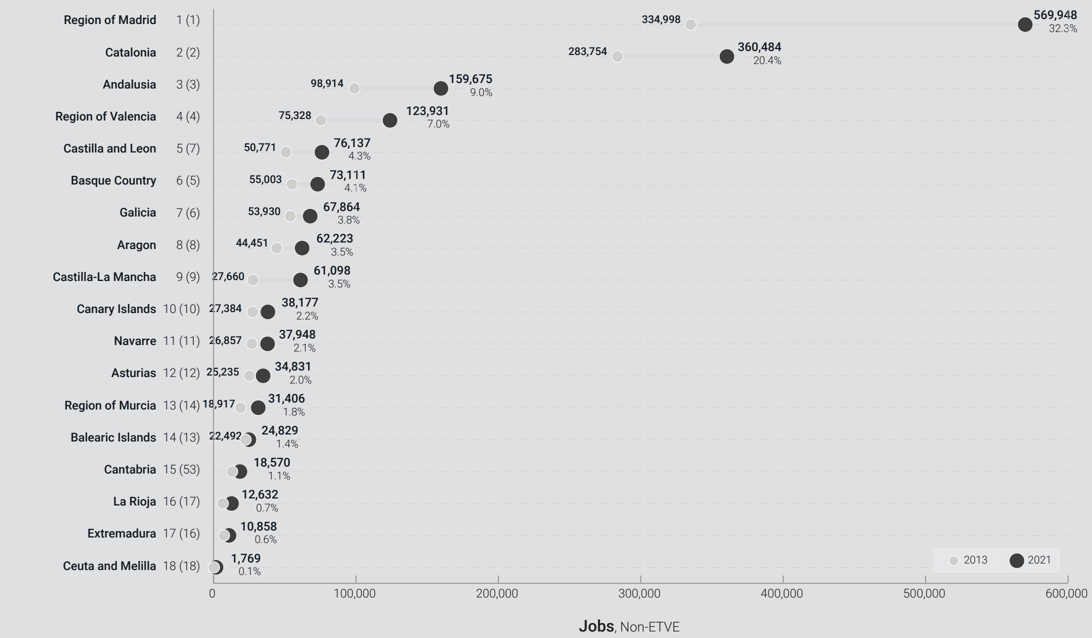
The impact of changes in foreign investment-related indicators across various regions in Spain has not been uniform.

In 2021, all regions showed improvements in IED-related job numbers compared to 2013. Notably, six regions—Castilla-La Mancha, La Rioja, the Community of Madrid, the Valencian Community, the Region of Murcia, and Andalusia—displayed growth rates exceeding the national average. Together, these regions were responsible for a considerable portion (67%) of the overall increase in employment due to the IED stock in Spain over the last ten years.

Regional changes in employment volume have been minimal (Figure 9). Notably, the Community of Madrid has significantly widened its lead over other regions by 40 percentage points, with 158,220 jobs. The performance of Castilla y León has improved compared to the two preceding regions. There's also been considerable job growth in Ceuta and Melilla, despite their initially low levels.

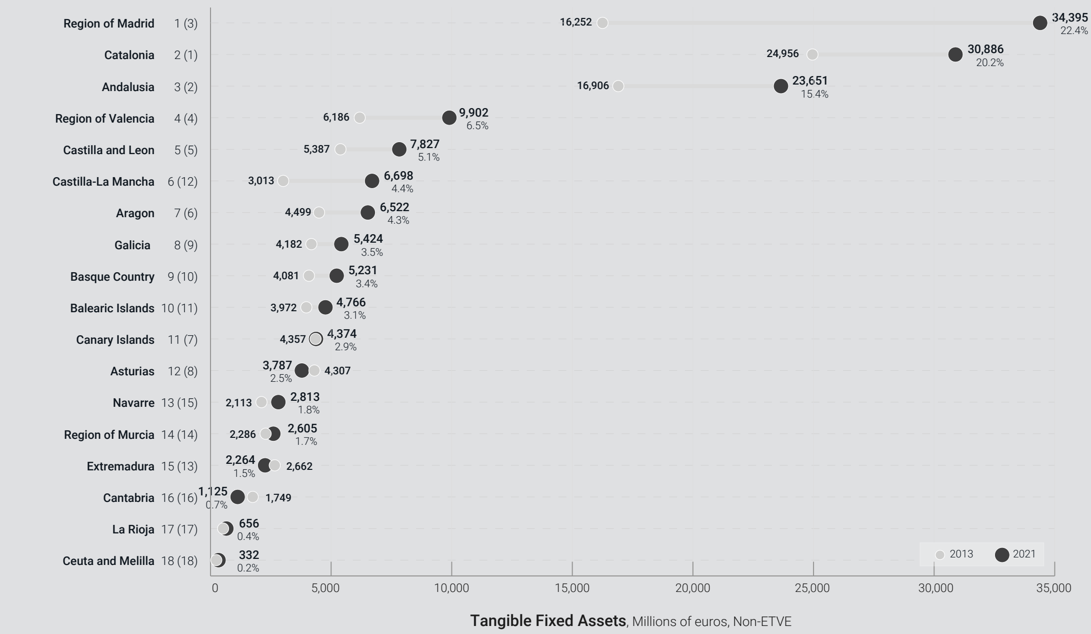
Similarly, an analysis of fixed assets reveals that the Community of Madrid, Castilla-La Mancha, and the Valencian Community are demonstrating better relative performance. However, certain regions, such as Cantabria, Extremadura, and Asturias, have experienced substantial setbacks in this aspect over the last decade.

Figure 9. Regional distribution of employment linked to FDI, 2013-2021



Source: Own elaboration, based on Investment Registry data

Figure 10. Regional distribution of fixed tangible assets, Millions of euros, 2013-2021



Source: Own elaboration, based on Investment Registry data

SPAIN'S COMPETITIVE ADVANTAGES FOR **ATTRACTING INVESTMENT**

CHAPTER **TWO**

SPAIN'S COMPETITIVE ADVANTAGES FOR ATTRACTING INVESTMENT

CHAPTER **TWO.**ONE Market factors, drivers of FDI in Spain

The size and growth of the Spanish market: keys to attracting Foreign Direct Investment

The size of the domestic market in Spain is significant, being the fourth largest in the Eurozone. It offers privileged access to other growing markets, which makes it an essential factor in attracting foreign investment.

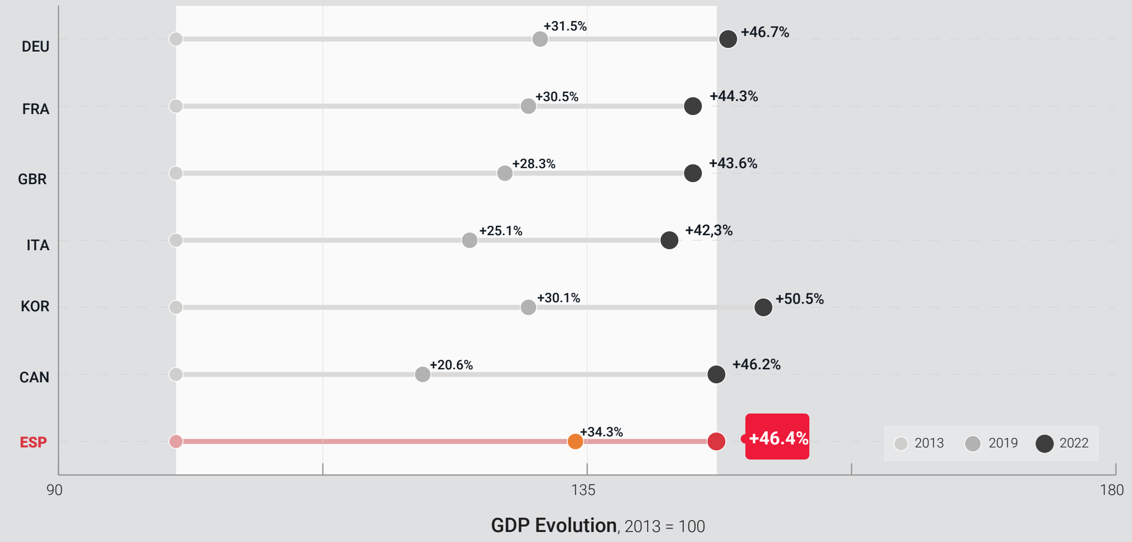
Large companies have been drawn to Spain over the past thirty years due to its **diverse economy, sustained growth, strong external sector, and competitive costs**. In the last decade, these factors have only enhanced Spain's appeal to foreign investors. Nonetheless, outdated and overly pessimistic views about the country prevail in certain geographical areas, creating the need **for improved efforts in commercial communication and diplomacy**.

Spain has been a significant player in Europe over the last ten years. The COVID-19 pandemic caused disruptions in the growth momentum that started in 2013, especially hitting sectors like tourism and hospitality hard. However, recent growth and forecasts show a resilience similar to the period from 2014 to 2019. During those years, Spain experienced some of the most substantial growth in the EU, outperforming the major European economies and the EU average.

Between 2013 and 2022, Spain's GDP grew by 32%, reaching €1.346 trillion in the last year, despite the country, experiencing a notable -10% decline during the pandemic. In comparison with other major European countries, only Germany showed a better performance, with nearly a ten-percentage-point difference in the decline during the 2020 pandemic year (according to OECD data).

Likewise, Spain's per capita income increased by 29% in the same period but was also significantly affected by the pandemic.

Figure 11. Evolution of GDP in a selection of OECD countries, 2013-2022



Source: Own elaboration, based on OECD data (2023)

The increasing competitiveness of the Spanish external sector in the last decade

Spain stands out due to its highly competitive external sector, placing itself at the forefront of international markets. With productivity in line with leading countries in its vicinity, the nation has consistently increased its participation in global value chains.

In the past ten years, Spain's trade balance turned from regularly negative to a consistent surplus[10]. The country's exports grew over 40% during 2013-2022, making Spain the top performer in export growth among the five largest Eurozone economies (EA5).

This would imply that, during the past decade, exporters in Spain have managed to maintain or improve their competitive pricing compared to domestic demand. In recent years, Spain's **external sector** has played a significant role in the country's **economic recovery**, contributing **2.4 percentage points to overall growth** last year.

In recent years, Spain's **foreign subsidiaries** have accounted for 40% of total exports, **contributing at least 1% to the GDP in 2022**, specifically through the **external sector**.

Spain's increased export demands have been led by a rising need for services abroad, especially in tourism and other sectors, growing by over 24%. The inclusion of high-value services, such as IT, consulting, and engineering, has been significant. Continuing this trend, along with broadening and securing the export base, ensures a better approach to future challenges.

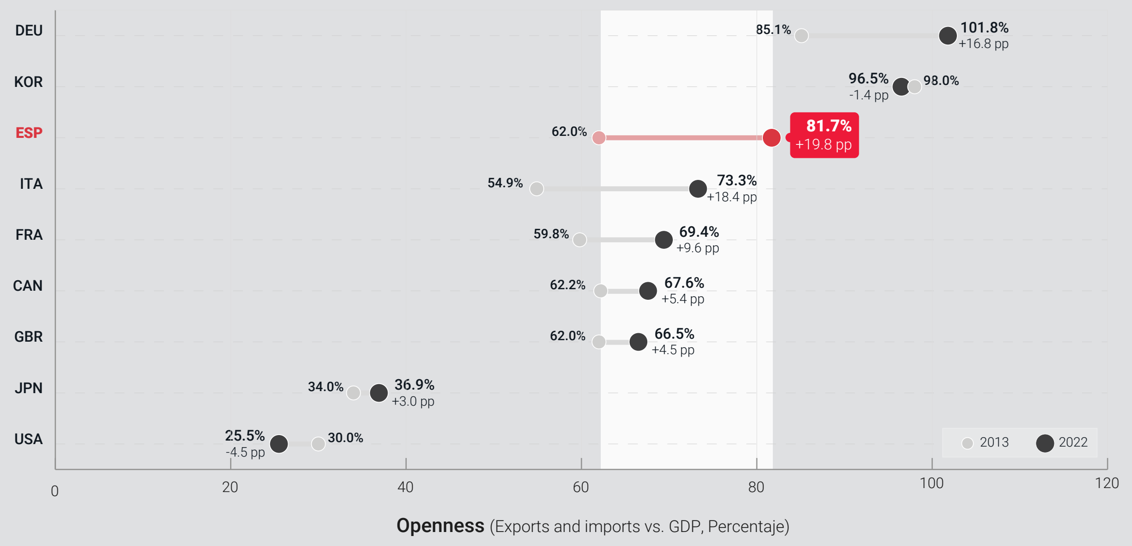
This upturn primarily results from a consistent expansion of the export base, less reliance on imports for domestic economic growth, diverse market engagement, advancements in cost competitiveness and higher technological content of certain exports. **Spain's ability to balance costs, value, and risk stands out**. Indeed, businesses in Spain can benefit from a unique blend of resources and advantages, ensuring high-quality performance at a competitive cost.

10.- M. Hidalgo, F. Steinberg (2023)

In the last ten years, Spain moved from a situation of needing funds to having the capacity to provide them, mainly due to the surpluses in trade. This change is seen significantly in industrial sectors where foreign companies, particularly in automotive, chemical, agri-food, and machinery, have a significant presence. In this sense, foreign subsidiaries have made up 49% of Spanish industrial exports.

However, there is still **room for improvement** in Spain's foreign trade, especially in exporting more **technologically advanced goods**.

Figure 12. Evolution of the economy's openness in a selection of OECD countries, 2013-2022



Source: Own elaboration, based on OECD data (2023)

The economic value of the Spanish language is an appealing asset for investors

An additional factor that makes Spain an attractive market is its language and its use in the global economy. **Language is a powerful driver of international economic flows** and a significant factor for business internationalization: a common language can nearly triple trade flows. In the case of Spanish, this factor is notably higher.

The strength of a language is determined by the number of speakers, their purchasing power, and its international scope. In 2022, Spanish had 485 million native speakers (595 million, including second language speakers), representing 7.5% of the global population. It remains the second most spoken language natively, following Mandarin, and the fourth most spoken overall.

Forecasts show a growth in the relevance of Spanish compared to other languages, like Chinese or English. This trend is notably supported by the United States, which is projected to have the largest number of Spanish speakers by 2050. **Over the past ten years, there has been an addition of more than 35 million native Spanish speakers, bringing the total number of speakers worldwide to over 67 million.**

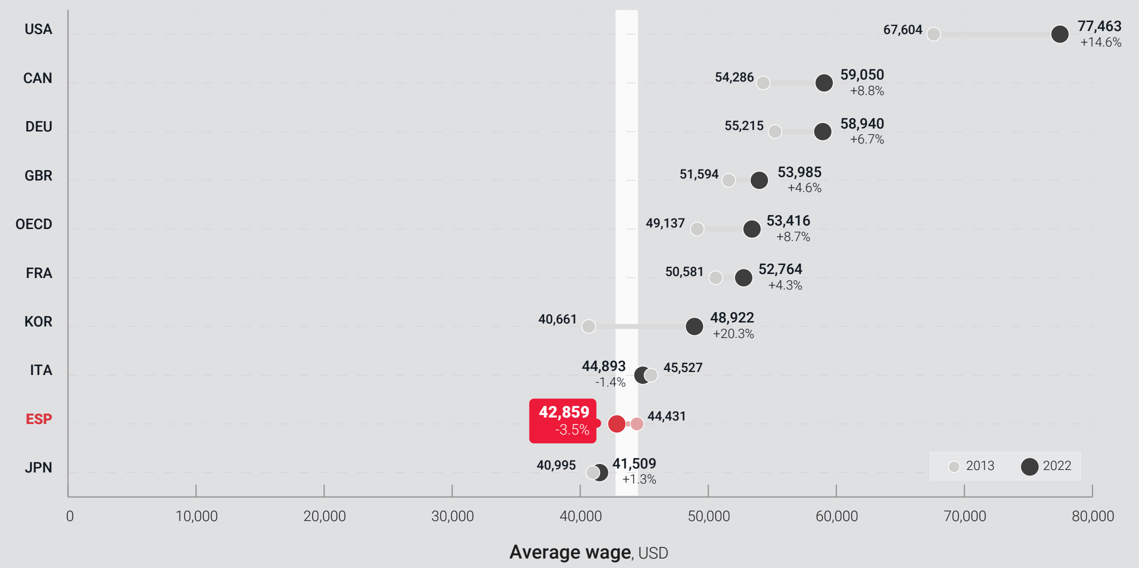
An appealing combination of high value, low costs, and low risk

According to previous reports from the Association and sources like *fDi Markets or Orbis Crossborder Investment*, the quest for efficiency continues to be a significant factor for multinational corporations in foreign investment strategies, although it ranks just below market appeal and the availability of talent.

Spain no longer relies on cost as the primary factor to attract investments. Instead, the country offers a **mix of high value, low cost, and low risk** that appeals to companies. This change comes in a context where risks have become more quantifiable and explicit due to recent geopolitical events.

During the financial crisis and the recent COVID-19 outbreak, efforts to control labor costs have helped Spain emerge as one of the most cost-effective locations for production. Recent OECD data shows that Spain's average wages in 2022 are 20% below the OECD average, making it the fourth country with the least wage increase since 2013, dropping by 3.5%. In contrast, countries like France saw a 4.3% increase, the UK had a 4.6% rise, and Germany experienced a 6.7% hike in wages.

Figure 13. Evolution of average wages in a selection of OECD countries, 2013-2022



Source: Own elaboration, based on OECD data (2023)

Various aspects that impact business productivity, such as operational costs, land and office space availability, electricity, and communication resources, have not experienced significant fluctuations, similar to the trends observed in wage changes. Spain's **ample land availability** across its geography, adjustments made post-crises, the **strategic use of Power Purchase Agreements** in energy-intensive industries, and a **supportive investment ecosystem** at national, regional, and local level all ensure efficient pursuit of optimal locations.

Summary Table 3. Evolution of main economic indicators, 2013-2022

	2013	2022	CHANGE	CAGR	EVOLUTION 2013-2022
GDP *Millions of Euros, market prices* *INE, National Accounts*	1,020,677	**1,346,377**	31.9%	3.1%	
GDP per capita *Euros, market prices* *INE, National Accounts*	21,906	**28,162**	28.6%	2.8%	
Public Debt *% GDP* *Bank of Spain*	100.5%	**111.6%**	11.0%	1.2%	
Exports, Goods and Services *% GDP* *OECD*	33.0%	**40.9%**	23.9%	2.4%	
FDI Inward Stock *Millions of Euros* *Investment Registry*	303,364	**529,877**	74.7%	7.2%	
Average salary *Euros per worker per year* *INE*	22,698	**25,897**	14.1%	1.7%	
International tourists *Millions of tourists* *INE, Frontur*	60.7	**64.9**	18.1%	1.9%	
Spanish Speakers *Millions of speakers* *Instituto Cervantes*	528	**595**	12.7%	1.3%	

Source: Own elaboration. * Stock data and average salary in 2021

CHAPTER **TWO.**TWO The consolidation of advanced infrastructures enhances the attractiveness of the market

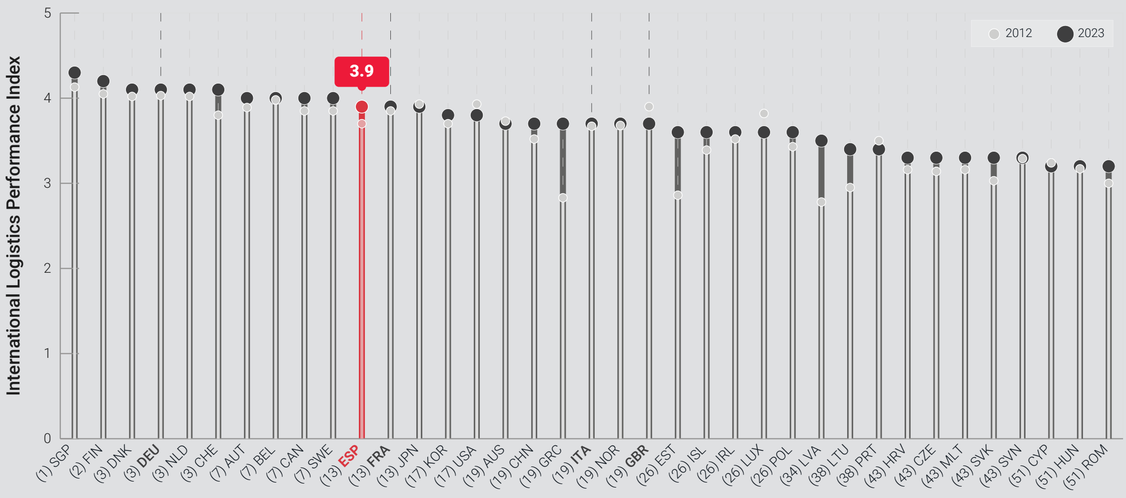
Spain benefits from strategic geographical positioning and well-developed communication and transportation infrastructures. Throughout its history, it has served as a key commercial hub and maritime power, fostering trade in regions like Latin America, North Africa, and the Middle East. These geographical advantages ensure Spain maintains a significant role in the globalized world, while the ongoing digitalization of the economy opens up new opportunities.

Global leadership in physical infrastructure

During the period from 2013 to 2022, Spain maintained a strong global reputation for its quality infrastructure, consistently ranking among the top 10 nations worldwide in infrastructure quality in the Global Competitiveness Report by the World Economic Forum. In the 2020 edition, Spain stood out as the seventh nation among major economies that significantly enhanced their infrastructures to advance the energy transition and improve access to energy and digital infrastructures.

A similar outlook, including an analysis of the post-pandemic years, is presented by the World Bank's International Logistics Performance Index, which assesses the logistical capabilities of over 130 countries. **Over the past decade, Spain climbed seven positions in the ranking**, now securing the 13th spot globally in the latest edition.

Figure 14. World Bank's International Logistics performance Index, 2012-2023



Source: World Bank, 2023. Selection of 50 countries in the sample

Spain excels in high-speed railway networks, demonstrating expertise in coverage, innovation, punctuality, and fleet adaptability. With over 3,900 km in operation and approximately 2,700 km in the planning stage, Spain has established itself as a leading presence in high-speed rail for over two decades. Additionally, the country boasts an extensive high-capacity road network exceeding 17,500 kilometers, leading not only in absolute terms but also in relation to its population within Europe.

Spain continues to be a vital hub for air and sea connections. Despite the challenges posed by the pandemic in 2020, the airport network has displayed considerable resilience and is on track to surpass 2019 levels (244 million passengers in 2022, compared to 187 million in 2013). The port system also remains robust, with pivotal ports like Valencia, Barcelona, and Algeciras playing a fundamental role in the country's logistical infrastructure.

Growing Competitiveness in Digital Infrastructures

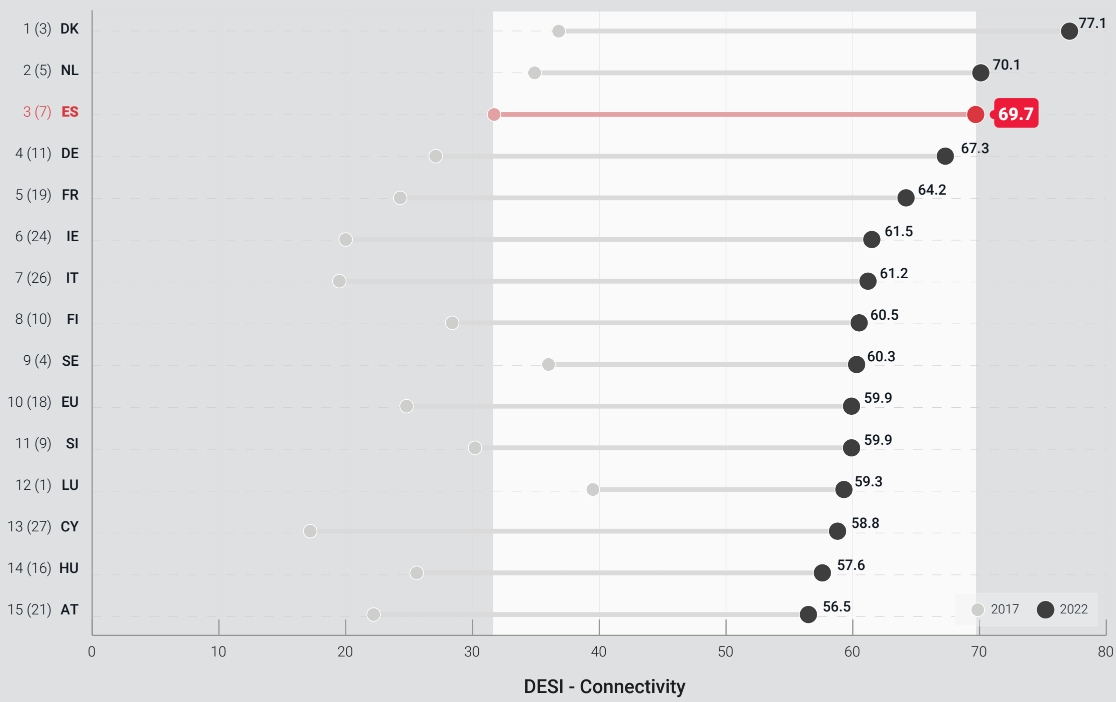
In recent years, **Spain's digital infrastructure has significantly improved**. Strong investments made in the last decade in expanding its fiber optic network, improving mobile connectivity, and significant investments in data centers — with **more than 6 billion announced for data centers and physical infrastructure**, mobilizing an additional 10 billion for IT equipment for deployment and maintenance, estimated to contribute over 50 billion to the GDP[11] — alongside the arrival of new transoceanic submarine cables (Spain, due to its geographical location, is a key digital connection point between continents), have not gone unnoticed by investors, entrepreneurs, and professionals. Consequently Spain has emerged as an attractive hub for talent and innovation, a trend that accelerated after the pandemic.

Spain's rapid advancement in digital infrastructure, recognized in studies like the **European Commission's Digital Economy and Society Index (DESI)**, showcases its significant progress from the seventh position in 2017 to **third place** in **Connectivity** in 2022. According to the latest report on the Digital Decade[12] by the European Commission, Spain ranks among the leading

11.- According to estimates from the Spain DC sectorial association.
12.- European Commission, 2023 Report on the State of the Digital Decade.

EU countries in digital infrastructure, especially in connectivity. The nation is at the forefront in e-government and digital public services within the EU, with projects such as Chip PERTE contributing to bolstering national and EU strategic sovereignty in semiconductors. Plans are also in place to establish Europe's first quantum-accelerated computer by 2025 in Spain. Moreover, Spain's Recovery and Resilience Plan has earmarked 19.6 billion euros, representing 28.2% of the total budget, for the country's digital economic transformation.

Figure 15. Evolution of connectivity performance in DESI among selected countries, 2017-2022



Source: Own elaboration, based on European Commission data (2023). Values in parentheses reflect the position in the 2017 ranking.

Energy Infrastructures

A final aspect to consider is related to the development of better energy interconnection infrastructures between Spain and the EU countries. Indeed, reducing the EU's external energy dependence and enabling its ecological transition demand a massive deployment of renewable energy sources, as well as additional improvements in energy efficiency

Spain holds a significant opportunity in this scenario. **It is the second country in the EU with the greatest potential for onshore wind energy production and the first for solar energy. Spain also boasts companies that manufacture a significant portion of the components necessary for the installation of wind and solar technologies**.

All this has been evident through the rising amount of Foreign Direct Investment (FDI) associated with the sector in the last two years, along with announcements of fresh investments. Nonetheless, the expansion of renewable energies will create new challenges and opportunities, both in terms of technology and employment.

Summary Table 4. Evolution of the main infrastructure rankings and indicators, 2013-2022

	2013	2022	CHANGE	CAGR	EVOLUTION 2013-2022
Global Connectedness Index *Score* *DHL*	67.1	**67.6**	0.7%	0.1%	
Global Competitiveness Report *Score - Infrastructures* *WEF*	84.3	**90.0**	6.8%	1.1%	
International Logistics Performance Index *Score* *World Bank*	3.7	**3.9**	5.4%	0.6%	
Digital Economy and Society Index *Score - Connectivity* *European Commission*	31.7	**69.7**	119.7%	17.0%	
High capacity road network *Km* *Dirección General de Carreteras*	16,582	**17,551**	5.8%	0.6%	
Vehicle fleet *Millions of vehicles* *FIVA*	27.6	**32.9**	19.2%	2.0%	
Air passengers *Millions of passengers* *AENA*	187.4	**243.7**	30.0%	3.0%	
High speed trains *Km in service* *ADIF*	3,190	**3,876**	21.5%	2.2%	
Renewable energies *Renewable installed capacity, MW* *Red Eléctrica*	39,646	**70,452**	77.7%	6.6%	
Mobile internet lines *Millions of lines* *CNMC*	31.4	**52.7**	67.8%	5.9%	
4G Coverage *Population with 4G coverage* *CNMC*	47.8%	**99.9%**	109.0%	9.7%	
Broadband Coverage *Population with access to a broadband connection (>100Mbps), CNMC*	52.0%	**90.0%**	73.0%	6.3%	
Optical Fibre Coverage *Population with Optical fibre networks coverage* *CNMC*	13.8%	**89.9%**	551.2%	23.1%	

Source: Own elaboration. * GCI available until 2021, GCI until 2019; DESI available from 2017.

CHAPTER TWO.THREE An exceptional quality of life

The quality of life in countries significantly influences business investment choices and the ability to attract and retain talent, both local and international. During the 2020 health crisis, there was an increased focus on this aspect of living conditions, which can be challenging to measure solely using comparable statistics and data. Spain has historically stood out in various factors that contribute to quality of life, including work-life balance, healthcare, social cohesion, safety, recreational opportunities, climate, natural surroundings, and connectivity.

OECD studies, in various editions, have highlighted Spain's and other Mediterranean economies' notable performance regarding the balance between personal and work life.

Although changes in methodology over time make direct comparisons difficult, Spain consistently demonstrates strong results. Factors such as available social support, citizen engagement in public life, safety, and life satisfaction[13] contribute to Spain's favorable ranking, placing fourth in the most recent edition of the study.

Surveys collecting **preferences from expatriates**, regardless of their backgrounds, have consistently recognized the quality of life in Spain in recent years. They've highlighted Spain's improvements in overall quality of life, physical health, climate, and environment. For instance, since the initial edition of the Expat Insider by InterNations in 2014, Spain has consistently ranked within the global Top 10. In the most recent edition, **Spain secures the second position overall and ranks first in terms of quality of life**.

The impact of healthcare on this perception of quality of life has been thoroughly studied. This includes evaluating the availability of a quality and accessible healthcare system, not only for local citizens but also for workers and foreign residents. It also encompasses analyzing the financial efforts to sustain this system and its ultimate impact on the population's longevity. Spain has maintained a significant leadership role in these aspects, despite facing budget cuts at the beginning of the decade due to the financial crisis. Furthermore, despite the severe strain caused by the pandemic on the healthcare system, Spain has managed to uphold its strong position in these healthcare-related areas.

During this period, Spain has stood out as one of the countries with an exceptionally efficient healthcare system, especially considering its spending in relation to the GDP or population. Studies such as the Health Care Efficiency Index and Bloomberg's Global Health Index have consistently placed Spain among the top countries in terms of life expectancy at birth. Despite a temporary decline during the pandemic, Spain currently ranks **fourth globally in life expectancy**. Over the last decade, Spain has generally been second only to South Korea in life expectancy, historically trailing behind only Japan and Switzerland.

In terms of safety, **Spain has consistently been among the countries with fewer safety concerns**, particularly noting commendable performance in its major cities. Rankings assessing safety have varied; Spain has been positioned anywhere between 26th to 34th in studies like the Institute for Economics and Peace, and between 36th to 40th in surveys such as *Numbeo's Safety Index*, considering over 150 countries. However, the consistently low crime rates, high levels of social peace, and the absence of organized or structural violence contribute to a high level of both actual and perceived safety for relocated professionals and executives.

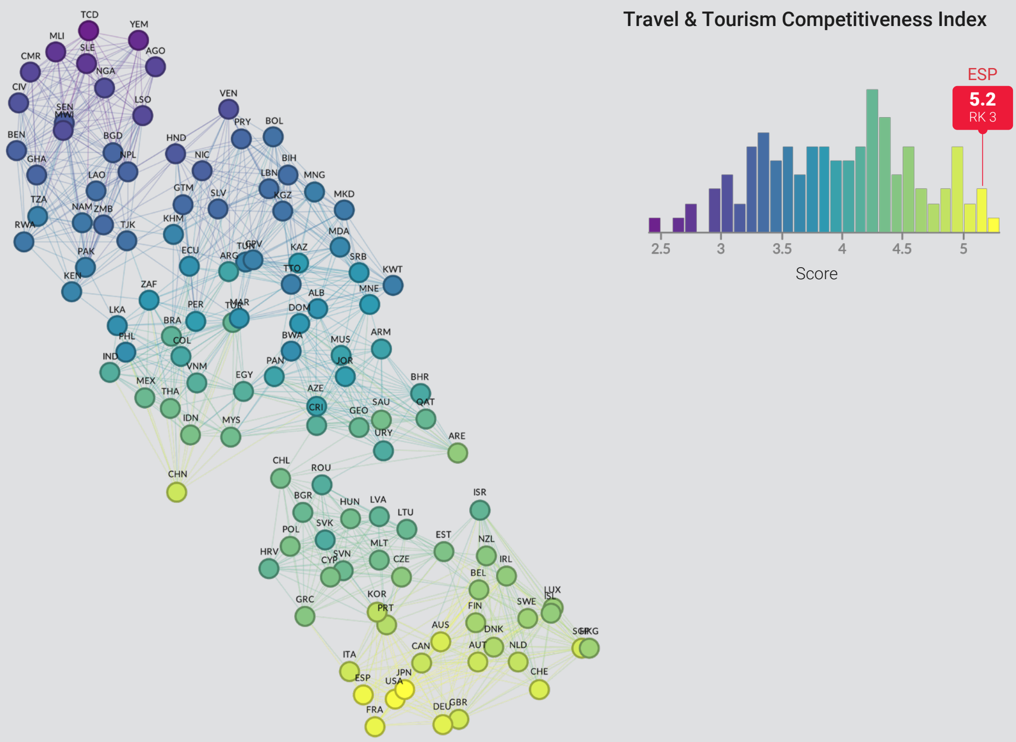
Spain continues to stand out as a peaceful and stable society, showing improvements in recent years in terms of inclusion, diversity, and moral freedom. These advancements contribute to a smooth integration process for expatriates, ensuring a comfortable environment for those relocating to Spain.

Regarding Spain's strengths in leisure, climate, environment, and external connectivity, comprehensive studies, such as the analysis conducted by the *World Economic Forum* on the **tourism sector's competitiveness**, underscore Spain's prominence. **Spain held the lead in this global ranking between 2015 and 2019, surpassing 140 other analyzed economies**, due to its exceptional combination of natural and cultural resources, favorable climate, diverse recreational opportunities, rich gastronomy, excellent tourist services and infrastructure, as

13.- This progress has led to a new area of study within the OECD, known as the "How's Life? Well-Being" initiative. This project involves monitoring more than 80 variables across 11 different areas.

well as robust domestic and international connectivity. Although the pandemic significantly impacted the tourism industry, resulting in Spain dropping to 5th place due to reduced tourist numbers and spending, by 2021, Spain had begun recovering, securing a two-place advance in the rankings.

Figure 16. Tourism Competitiveness, WEF



Source: Own elaboration, comparing the results of 117 countries based on the 294 factors analyzed by the WEF in its latest Travel & Tourism Competitiveness Index

CHAPTER **TWO.**FOUR A favorable and transitioning regulatory context

Spain stands out for having a highly favorable institutional environment for the establishment of foreign companies. According to the OECD index that measures regulatory restrictions on Foreign Direct Investment (FDI Restrictiveness Index), Spain is among the countries with fewer barriers to investment, well below those existing in major European countries and the OECD as a whole (see Figure 3).

The recent regulatory framework concerning foreign investments (RD 571/2023 of July 4) in Spain, effective since September 1, 2023, revises and enhances the rules governing foreign investments in the country, specifically focusing on investment control[14]. This new regulation, designed to align with European Community standards, has received positive feedback from prominent advocates, as it:

14.- Control with which they were regulated since 1999 - and the second transitory provision of Royal Decree-Law 11/2020-.

- Speeds up the resolution of authorization requests.
- Establishes a new system of exemption.
- It formalizes certain interpretative criteria that authorities have been using.
- It establishes a revised framework for controlling investments related to national defense.

Ultimately, **the new regulation allows investors to reduce administrative burdens and potential obstacles**, while also decreasing response and resolution times, a key demand from companies and investors. It **enhances legal certainty** in the market, offering a more secure environment for investment.

Additionally, Spain benefits from a comprehensive network of national, regional, and local institutions focused on ensuring transparency, democratic quality, and offering robust support to investors.

Another example of Spain's support for innovation and investment is its **pioneering sandbox initiative to establish a controlled space for developing artificial intelligence (AI)**. This platform will test the effectiveness of upcoming EU regulations for AI technology. Therefore, **Spain takes a leading position in the regulations that will govern AI across Europe**. This stance will serve as a guide for companies in Spain when assessing future operations in other countries.

Utilizing this favorable regulatory context demands a **meticulous application of principles in sound regulatory practices**, aligned with recommendations from the OECD and the EU. This requires active steps from lawmakers to **simplify rules, minimize administrative burdens, and assess the effectiveness of these regulations**. Indeed, predictable and stable legal frameworks are crucial, as per research on Foreign Direct Investment, to encourage increased foreign investment inflows.

CHAPTER **TWO.**FIVE The importance of talent and innovation for the economy

Foreign investment plays a crucial role in Spain's path toward prosperity driven by talent and innovation. It boosts economic growth by facilitating knowledge transfer, promoting business collaboration, and stimulating competition. This investment strengthens Spain's industries and nurtures talent development, aiming to position Spain as a global leader in the knowledge-based economy.

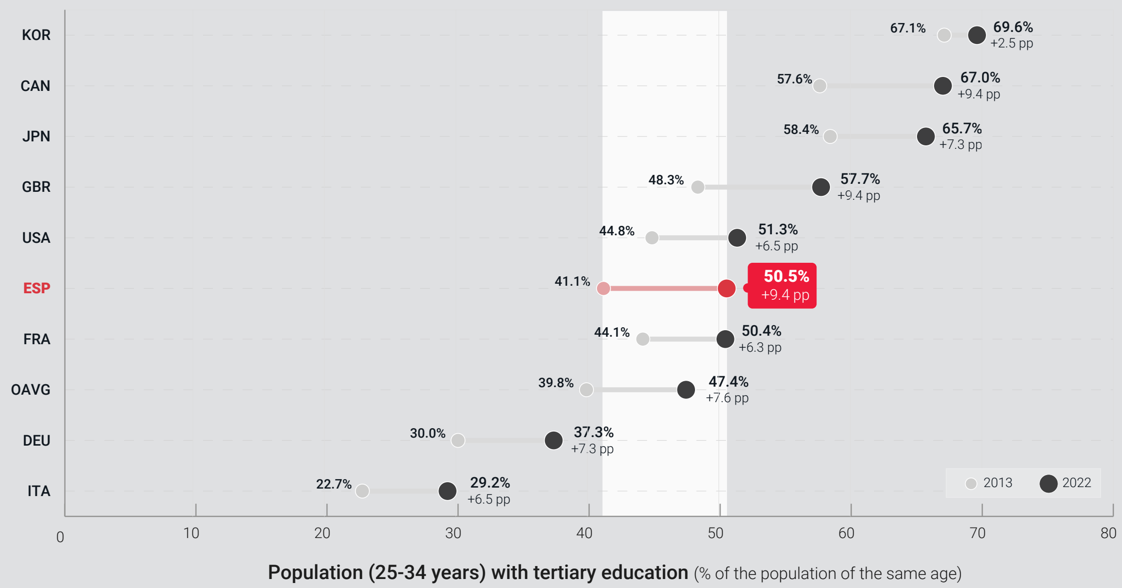
A new regulatory framework that represents a boost for attracting international talent

In the last ten years, Spain's total population has increased by 3.7%, exceeding 48 million people by the end of 2022. While low birth rates have persisted, there has been a 30% increase in the foreign population, with this growth of 1.4 million people contributing to 82% of the total population change during this period. These demographic shifts occurred alongside a notable decrease in unemployment rates, which dropped by more than 13 percentage points between 2013 and 2022, reaching 12.9%.

Spain is recognized for its exceptional pool of talent, both homegrown and attracted from outside. The country consistently surpasses the OECD average in the population with tertiary education, despite notable differences across various age groups and the overall population distribution. While the gap between the older (over 55 years) and younger (25 to 34 years) population has decreased in the past decade, it remains one of the widest within the OECD. Spain has shown significant progress, with one of the **highest percentage increases in the population attaining tertiary education between 2013 and 2022** (improving by 9.5 percentage points). The European Commission[15] has acknowledged **Spain's strong performance in basic and advanced digital skills**, as well as the increase in the percentage of ICT specialists and graduates.

This progress is partly due to Spain's robust educational system. Public and private universities, along with world class business schools, have increasingly opened their doors to international talent. Recent legislative efforts to modernize the education and vocational training system have also contributed to this advancement. Educational programs in Spain cover a broad spectrum of technical disciplines, offering students the chance to gain specialized knowledge aligned with the needs of emerging business activities and industries. Furthermore, vocational training centers and business schools have adapted their programs to meet the most pertinent job opportunities in the labor market.

Figure 17. Evolution of the percentage of population aged 25 to 34 with tertiary education, 2013-2022



Source: Own elaboration, based on OECD data (2023)

In the last decade, Spain has shown significant advancements in STEM (Sciencce, Technology, Engineering, Mathematics) education. In 2022, the country ranked as the seventh economy in Europe, surpassing the EU average with 23.4 graduates per thousand individuals aged 20 to 29. **Additionally, approximately half (49%) of Spain's active workforce possessed tertiary education and/or experience in science and technology in 2022, marking an eight-percentage-point increase since 2013**.

15.- European Commission (2023), Report on the State of the Digital Decade.

Continuing the positive trend in STEM education is crucial for fostering entrepreneurial talent, enhancing stability in the education system, improving language proficiency ratios, and achieving excellence across all educational levels. These efforts will not only increase the return on investment in education but also potentially attract more foreign investment.

Spain also boasts **internationally recognized entrepreneurship hubs**, acting as centers for innovation and the attraction of global talent. Recently, a **new law (Startups Law, December 2022)** was passed in Spain to **boost the attraction of international talent**. This law introduces tax changes, expands options for foreign workers, entrepreneurs, and investors to settle in Spain, simplifying procedures for them. The goal is to attract and retain top international talent, entrepreneurs, investors, and foreign students by facilitating their entry and residence in.

This law is part of a broader strategy aimed at transforming and securing Spain's economic future. Positioned uniquely in the Mediterranean region, Spain is an ideal destination for entrepreneurs. With the necessary elements in place, Spain has the potential to become a **hub for international projects in technology and knowledge**. The combination of a robust entrepreneurial ecosystem, scientific output, and the ability to attract foreign investment creates a landscape of growth and opportunities where ideas become reality, and talent converges.

In this endeavour, foreign multinational companies play a crucial role. Some companies have taken steps to address skill shortages by creating their own educational centers in the regions where they operate. These centers aim to supplement the lack of specific skill sets required for their business activities.

The Next Generation EU funds are an opportunity to bridge the gap in innovation

Spain possesses substantial **scientific capabilities, technological infrastructure, and an advantageous environment for investing in research, development, and innovation**. Despite notable progress and the country's digital and technological advancements over the past decade, there remains a **gap compared to major European economies**. To bridge this gap, it is crucial to leverage initiatives like the European Recovery Fund, Next Generation EU, with a specific emphasis on enhancing industrial infrastructure and capital—two essential components, along with talent, for driving innovation.

A clear indication of the progress and remaining challenges is evident in studies and indicators such as the *Global Innovation Index* by WIPO or the *European Innovation Scoreboard* (EIS) by the European Union.

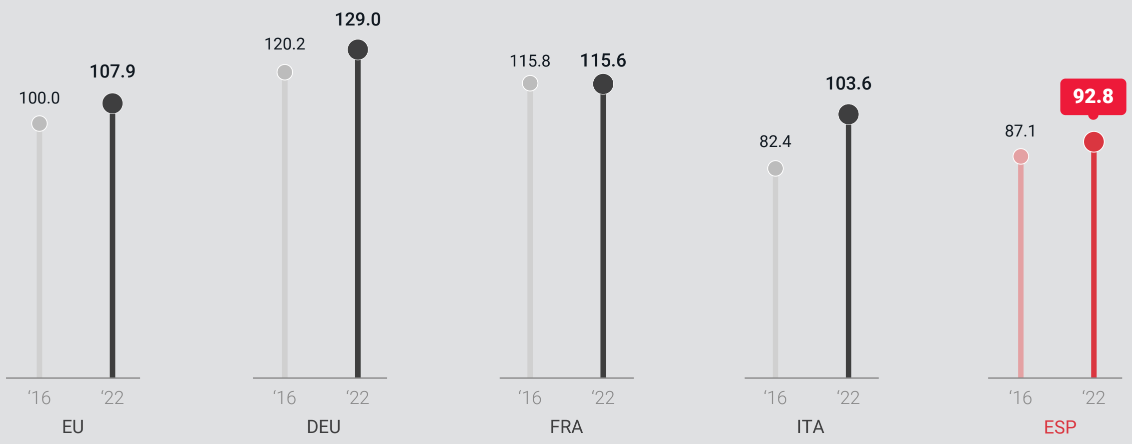
In the *Global Innovation Index*, Spain has not advanced beyond the 27th position from 2013 to 2022, experiencing a gradual decline in its relative score. As of the 2022 edition, Spain is ranked 28th among the most innovative countries out of a total of 132.

The assessment by the European Union, through the *European Innovation Scoreboard* (EIS), provides a more optimistic view. Although Spain is still below the EU average in the overall innovation indicator, categorized as 'moderate innovators,' there has been a convergence process since the tool's inception in 2016. This positive trend is attributed to improvements in various areas analyzed, with Spain experiencing more significant progress than the regional average[16]. Notably, four Spanish regions (Basque Country, Madrid, Catalonia, and Navarra) have already attained the status of 'strong innovators,' marking the second tier in a ranking predominantly led by Nordic countries.

The European Innovation Scoreboard (EIS) also reveals Spain's relative strengths within the EU, particularly in areas such as Digitalization, where it secured the fourth position among the 27 member states in 2022. Additionally, Spain performed well in Human Capital (eighth position) and Environmental Sustainability (eleventh position). However, the EIS also pointed out relative weaknesses in areas such as employment in innovative companies, innovative SMEs, and collaboration among businesses. Furthermore, Spain lagged behind in corporate investment, financing, and support compared to leading countries, indicating the need for improvement in these areas[17].

The **Spanish society calls for a long-term consensus on education and R&D&I**. Both national and regional governments, responsible for education and promoting research, development, and innovation, have the opportunity to work together cohesively to bridge the existing gap. This requires a collective focus on developing essential skills and investments, maximizing efforts, and leveraging the opportunities presented by the Next Generation EU funds.

Figure 18. European Innovation Scoreboard in Spain and main European countries, 2016-2022



Source: Own elaboration, based on data from the European Commission

16.- Spain has improved by 9.7 points since 2016, compared to the overall EU improvement of 8.5 points.
17.- According to the OECD's "Measuring Tax Support for R&D and Innovation" report from 2020, for every $1 spent on Research and Development (R&D) by large companies in Spain, there is a corresponding fiscal subsidy of $0.33. This positions Spain as the 6th most beneficial country in terms of providing fiscal incentives for R&D activities.

Summary Table 5. Evolution of Spain in the main rankings and talent and innovation indicators, 2013-2022

	2013	2022	CHANGE	CAGR	EVOLUTION 2013-2022
Global Innovation Index *Score* *WIPO*	49.4	**44.6**	-9.7%	-1.1%	
European Innovation Scoreboard *Score* *European Union*	87.1	**92.8**	6.6%	1.1%	
Total Population *Millions of people* *INE*	46.5	**48.2**	3.7%	0.4%	
Foreign Population *Millions of people* *INE*	4.7	**6.1**	30.0%	3.0%	
Active population *Millions of people* *INE*	23.2	**23.4**	1.0%	0.1%	
Female active population *% Active population* *INE*	46.0%	**47.2%**	2.6%	0.3%	
Unempoyment rate *Percentage* *INE*	26.1%	**12.9%**	-50.5%	-7.5%	
Population with tertiary education *% population, 25 to 34 years* *Education Ministry*	45.3%	**55.1%**	21.6%	2.2%	
HRST *% employed population (25-34 years)* *Eurostat*	41.2%	**48.9%**	18.7%	1.9%	

Source: Own elaboration. *EIS available from 2016.

THE CONTRIBUTION OF MULTINATIONAL COMPANIES TO STRENGTHENING THE COMPETITIVE ADVANTAGES OF SPAIN

CHAPTER **FOUR**

THE CONTRIBUTION OF MULTINATIONAL COMPANIES TO STRENGTHENING THE COMPETITIVE ADVANTAGES OF SPAIN

CHAPTER THREE.ONE The contribution of Multinational Enterprises (MNEs) to economic growth and productivity in Spain

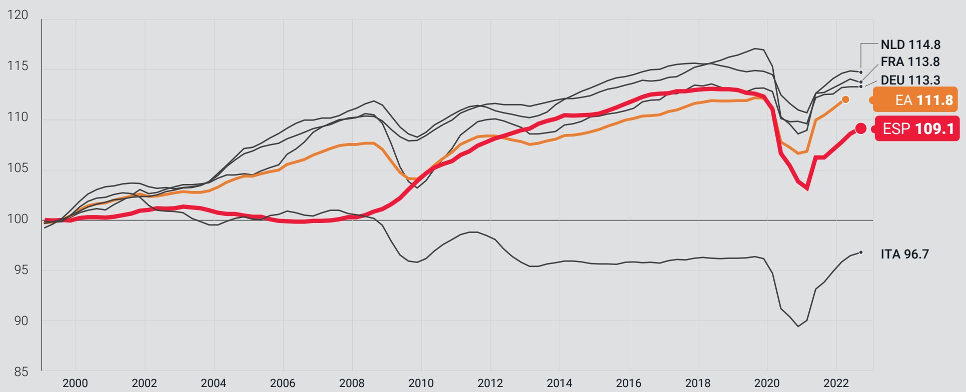
Multinational companies in Spain contribute to the nation's economic growth, bolster the local industrial landscape, and foster talent development. This is achieved through the transfer of knowledge, promotion of business collaboration, and stimulation of competition.

Despite positive economic data in the last decade, challenges loom for the Spanish economy. At the macroeconomic level, Spain's productivity per employee remains slightly below that of other European nations. Factors such as the impact of low-value-added sectors, a limited number of large companies, insufficient investment in innovation, and the regulatory and institutional landscape[18] are often cited as significant obstacles to enhancing competitiveness. Nevertheless, as depicted in Figure 19, productivity per employee in Spain began a trajectory of growth and convergence with major European economies in 2009, only to face disruption during the pandemic with a more pronounced decline in production value compared to these economies.

Likewise, it is noteworthy that this convergence in productivity coincides with a significant **decrease of more than 13 percentage points in the unemployment rate over the last decade**. The rate has dropped from 26.1% in 2013 to 12.9% last year. This positive trend in productivity is coupled with a notable increase in employment levels.

Furthermore, information obtained from the FILINT Survey (INE, 2023) emphasizes that the productivity of foreign multinational corporations surpasses the average p**roductivity of all Spanish companies by 57%**. However, it's crucial to note that the company's size emerges as a critical factor explaining this difference, as the productivity of Spanish multinational companies closely aligns with that of foreign multinational companies.

Figure 19. Productivity per employee in Spain and other European countries, Index 1999=100



Source: D.G. of the Treasury, Presentation Kingdom of Spain, Dec. 2022

18.- Multinacionales con España (2023b)

Hindering business growth or the capacity to reallocate capital and labor among sectors and companies may result in reduced innovation and economic productivity. Therefore, it is essential to monitor the quantity and quality of regulations, as well as address deficiencies in the allocation of capital among companies. Additionally, barriers affecting the creation, growth, and dissolution of companies need attention.

In this regard, several legislative initiatives have recently been approved to promote business growth and entrepreneurship, facilitating the efficient reallocation of resources. It would also be advisable to review regulatory developments that may discourage growth. This requires ensuring market unity, promoting competition, and continuing to expand the sources of financing available to companies.

CHAPTER THREE.TWO The contribution of MNEs to the Spanish labor market

Foreign multinational corporations in Spain have played a key role in the country's employment recovery over the last decade, increasing their share of the national workforce.

During this period, **subsidiaries of foreign multinational corporations have been instrumental in creating almost 800,000 jobs**, as indicated by the latest data from INE-FILINT. The workforce engaged in these subsidiaries has surged from 1.2 million to 2 million, surpassing the employment growth rate of the broader Spanish business landscape. Consequently, the proportion of employment absorbed by foreign subsidiaries has risen from 13.3% to 15.2% of the national total.

Another crucial contribution of foreign multinational corporations in Spain is their impact on the **average wage growth in the country**. According to the latest INE-FILINT data, the subsidiaries of foreign multinational corporations have not only significantly increased the number of jobs but have also played a role in raising the average wage. The comparison with the average wage across all companies reveals a 35% differential in favor of foreign-owned enterprises. Additionally, the wages in these foreign-owned companies are 7% higher than those in Spanish multinational corporations.

Multinational companies in Spain, with above-average salaries and higher-skilled managerial and technical staff, are key contributors to raising the level of human capital in the country.

Ensuring a coordinated and cohesive effort between the business and education sectors is essential to enhance the educational and training levels of entrepreneurs, self-employed workers, and employees in Spain. The focus should be on eliminating existing disparities and providing incentives to elevate these levels, aligning them with the current and future demands of the job market.

This collaborative approach aims to link system financing to excellence objectives and implement initiatives that increase the relative weight of graduates in science, technology, engineering, and mathematics (STEM) areas.

Additional information to consider regarding the impact of FDI is related to demographic and migratory patterns. In the last decade, the total population of Spain has increased by 3.7% to reach 48.2 million. During the same period, the foreign population in Spain has grown by 30%, now constituting 12.6% of the total population, up from 10.1%.

This demographic shift is accompanied by an aging population, a common trend in many European countries. The aging trend in Spain would be more pronounced without the contribution of positive and relatively high net migration flows expected in the coming years. Implementing migration policies that attract talent, similar to those in some European countries, is crucial to addressing labor market imbalances, involving both the public sector and major employers, such as multinational corporations.

CHAPTER THREE.THREE A valuable contribution to the Spanish economy: driving growth, internationalization, and a commitment to high-value investment in Spain

The outstanding progression of net foreign investment flows in the past decade is also notably reflected in Spain's investment stock or position in international investment. This variable is crucial for any forward-looking analysis of Foreign Direct Investment (FDI) in the medium and long term.

The latest data on the position of foreign investment in Spain, published in July 2023 and referring to 2021, places this variable at 571,843 million euros, with a year-on-year growth of 3.6%. This positions Spain as one of the major economies receiving stock investment globally, indicating external investors' confidence in the Spanish economy. Moreover, the positive trend in the investment position is attributed to a 4.1% increase in productive companies (non-ETVE), offsetting the decline in ETVEs (-3.1%), without impacting Spain's economic activity.

Since 2013, the foreign investment position in Spain has grown by 75% for productive companies. The share of foreign investment stock in relation to the Spanish GDP also significantly increased by almost 14 points between 2013 and 2021.

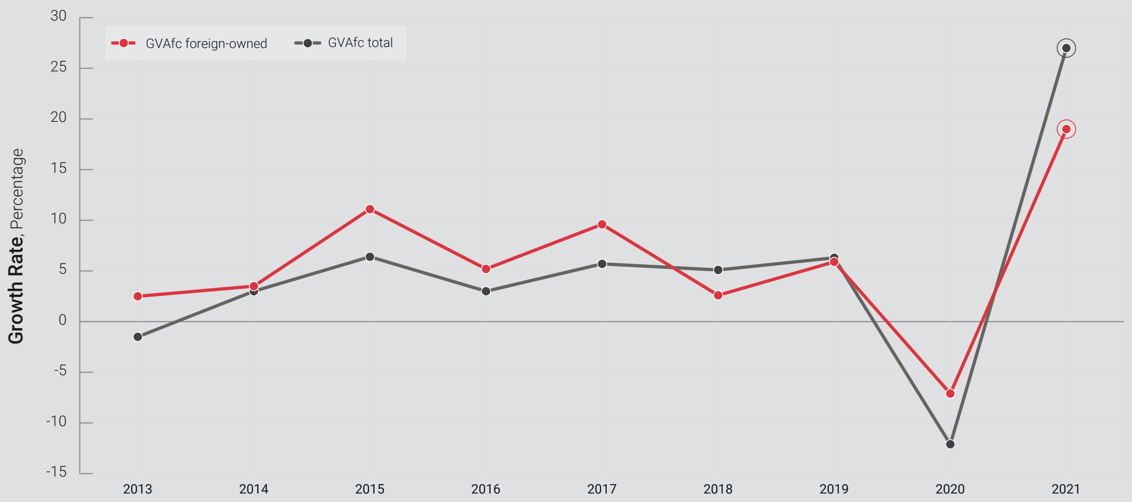
At this juncture, it's crucial to highlight the significant role played by subsidiaries owned by foreign entities in contributing to the overall growth of value-added in the Spanish business sector.

The INE's annual Foreign Affiliates Statistics (FILINT) survey, released in September, now includes the Statistics of Companies by Group Membership (EEPG). This dataset annually reveals crucial economic and employment metrics for Spain-based companies in various sectors. It classifies companies based on group affiliation—whether they belong to a purely domestic group, a Spanish multinational, or a foreign multinational. The provided statistics encompass economic aggregates such as production value and gross value added, offering valuable insights for a more nuanced analysis.

According to the data provided by the INE (FILINT, 2023), the average growth rate of the gross value added at factor cost (GVAfc) of foreign-owned subsidiaries between 2013 and 2021 was 6%, while the corresponding rate for all Spanish companies in the same sectors was 5.5%. Although the share of value added by subsidiaries represents only a quarter of the total value of companies (22% in 2013, 24% in 2021), their contribution to the total value added of Spanish companies exceeded 29%.

The graph illustrates the **growth dynamics of GVAfc between foreign-owned subsidiaries** and the overall companies in the sectors covered by the INE statistics. It shows a **stabilizing effect of the subsidiaries, with generally higher growth rates during expansion years**[19] **and less decline during recessions**.

Figure 20. Annual growth rates of total GVAfc at factor cost and for subsidiaries, 2013-2021



Source: Own elaboration, based on the INE-FILINT survey

The latest INE data reveals several noteworthy trends. Firstly, by the end of 2021, there was a 52% increase in the number of subsidiaries of foreign companies operating in Spain in the industrial, commercial, and non-financial services sectors compared to 2018[20]. These subsidiaries, numbering 14,761, are distributed with 48% in services, 32% in trade, and 21% in industry.

These foreign subsidiaries represent only 0.5% of the total number of companies in Spain, yet they contribute 27.5% to the total turnover in these sectors. Furthermore, the activity of these subsidiaries involves substantial investment in assets. Specifically, **the investment in tangible assets by foreign multinational corporations accounts for nearly one-third (33%) of all investment made by companies in Spain**, marking an eight-point increase since 2013. This increase in investment share is attributed to a more than twofold growth in the gross investment figures in tangible assets by foreign subsidiaries in Spain over the past decade, reaching 26,327 million euros.

The export propensity of foreign subsidiaries and their spillover effect on the local business fabric

The INE-FILINT survey, starting in 2016 with information from 2014, shows that **exports from foreign subsidiaries in Spain have grown by 24%**, reaching 158,634 million euros in 2021. These exports constitute 4**0% of the total** in the sectors analyzed by INE.

Across all sectors, the contribution of foreign subsidiaries to the national total has remained relatively stable, hovering around 40% over the period, with a peak in 2016 at 44.5%.

The impact of foreign subsidiaries on exports in the industrial sector is particularly significant, accounting for 49% of total exports. The strong influence of foreign capital in

19.- Except for 2021, when the growth rate of Gross Value Added at factor cost for the overall business groups in Spain compared to the previous year was higher (27%) - due to the rebound effect - than that recorded by foreign subsidiaries (19%), which had experienced a smaller decline than the overall business scenario in Spain during 2020.
20.- It's important to note that in 2018, the INE changed its statistical methodology, considering subsidiaries as statistical units. This resulted in estimating 32% fewer subsidiaries than with the previous methodology. If the series had not been discontinued, the evolution of the number of foreign subsidiaries in the last decade would have increased by more than 80%.

highly integrated industrial sectors within global supply chains, such as Transportation Equipment, Electrical Equipment, and Chemical and Pharmaceutical Industry, is well-known.

Considering the substantial impact of foreign multinational subsidiaries on the Spanish economy, it's crucial to note their influence on export dynamics, particularly in different-sized enterprises. In micro-enterprises, foreign companies contribute 12% to total exports. However, this percentage significantly rises to 50% for large enterprises, with 59% of those in the industrial sector[21].

The increased export propensity of large foreign industrial subsidiaries in Spain has had a clear spillover effect. This impact is evident in the behavior of Spanish supplier companies that are part of the value chains of these foreign subsidiaries. As a result, the competitiveness and export performance of the broader Spanish business landscape have experienced substantial improvement over the past decade.

Figure 21. Sales outside of Spain, Millions of euros, 2014-2021

Source: Own elaboration, based on the INE-FILINT survey (2023)

Foreign subsidiaries contribute 45% to R&D spending in the Spanish industry and construction sectors

The latest available data[21] reveals that subsidiaries of multinational companies operating in the industry and construction sectors in Spain contributed €1,821 million to the country's overall business spending on research and development (R&D). This contribution represents 20.7% of the total R&D spending by businesses and a substantial 45% of the spending in the specific industry and construction sectors. Additionally, these subsidiaries employed 22,647 individuals engaged in R&D activities.

In the last ten years (2019 compared to 2011), foreign subsidiaries in Spain have seen a substantial increase in research and development (R&D) spending by 37%, and employment

21.- The data provided by the INE before the methodological update in 2023 does not allow for comparisons, since this information is not available for years prior to 2021.
22.- Eurostat (Foreign-controlled entreprises statistics, 2019), the INE-FILINT survey's mirror statistics.

in R&D roles has surged by 45%. These growth rates far exceed the overall trends in R&D spending (+4.5%) and R&D personnel (+9.6%) across the entire Spanish economy[23]. Notably, this growth has occurred amid a general stagnation in R&D-related variables in Spain since the global financial crisis.

In summary, foreign subsidiaries outperform Spanish companies in key economic indicators, including employment, wages, asset investment, productivity, and R&D+I investment. These subsidiaries play a crucial role in boosting the competitiveness and opportunities of our country.

23.- Global data from the OECD - Gross domestic spending on R&D.

POTENTIAL

INVESTMENT

GROWTH

CHAPTER **FOUR**

THE POTENTIAL EVOLUTION OF INVESTMENT GROWTH FROM 2024 TO 2030, WITH THE OBJECTIVE OF DOUBLING IT BY THE FINAL YEAR

The future of Foreign Direct Investment (FDI) in Spain within a context of macroeconomic stability

When looking ahead at cross-border investments, it's essential to consider the global environment and the economic outlook of the host country.

Foreign direct investment (FDI) tends to follow trends in key economic indicators like GDP, trade, and capital formation. During periods of strong growth, FDI increases, while weaker economic conditions often lead to a decline in global investment flows.

The latest report by the International Monetary Fund on global economic outlook (WEO report[24]), which includes medium-term forecasts for the world economy, estimates global GDP growth at around 3% over the next five years until 2028. This projection is the lowest since 1990 and well below the 20-year average of 3.8%. The subdued outlook extends the current cycle characterized by the restrictive stance of anti-inflationary monetary policy, the consequences of deteriorating financial conditions, the impact of the conflict in Ukraine, and the increasing geo-economic fragmentation. It's important to note that this report does not yet capture the economic implications of the new conflict in the Middle East, and depending on its scope and duration, global economic prospects may be affected.

Considering the Bank of Spain's projections extended to 2030, incorporating inflation estimates and assuming an average potential growth of the Spanish economy at around 2%, **Spain's GDP would surpass 2 trillion euros by that year**.

The expected macroeconomic stability in Spain supports the continuation of the recent

Summary Table 6. Projections of the Bank of Spain

AVERAGE MACROECONOMIC IMPACT of funds on GDP: 0.7 points in investment + 0.5% from reforms = 1.2% (estimate based on the macroeconomic impact table from the Moncloa Economic Office)

ESTIMATED AVERAGE NOMINAL GDP GROWTH (2023-2030): 1.3%

PROJECTED GDP until 2030 in Spain, estimating the average potential growth at around 2% annually - current forecasts from the Bank of Spain: 2.3% (2023), 2.2% (2024), 2.1% (2025)-

GDP DEFLATOR (Bank of Spain): 4.3 (2022), 4.4 (2023), 3.2 (2024), and 2.0 (2025)

NOMINAL GDP (Bank of Spain): 10% (2022), 6.8% (2023), 5.4% (2024), and 4.1% (2025)

Average **INFLATION** 2.2% (est)

TOTAL REAL GROWTH: 4.7% (est)

24.- IMF (2023), "World Economic Outlook", April 2023 positive trend in foreign investment. **In 2022, Spain ranked as the third-largest European economy and the twelfth globally in received flows**, sixth in received greenfield projects, with a relative performance in terms of received stock better than the two major European economies ahead, France and Germany.

Spain is also in a very favorable position to maintain a positive trajectory in attracting foreign investment, as it stands to receive the largest amount of EU funds in the current period, until 2026.

A favorable context marked by European funds

Amid the crisis triggered by the 2020 pandemic, European policymakers launched the ambitious NextGeneration EU program to aid the recovery of countries facing economic turmoil. These European funds are aimed at fostering more sustainable and equitable economic growth.

The EU's NextGeneration program for investments and reforms aims to mobilize €750 billion from 2021 to 2026. It focuses on advancing the European Green Deal, the Digital Compass strategy, and the REPower EU Plan to strengthen European strategic autonomy and enhance growth potential and well-being. These goals are structured in six pillars and implemented through national Recovery Plans with shared priorities and requirements to maximize economic and social impact.

Figure 22. Six pillars of the Recovery and Resilience Mechanism

Source: Recovery, Transformation and Resilience Plan, Government of Spain 2023

Spain, one of the countries which was most severely impacted by the pandemic, received significant European funds and implemented a Recovery, Transformation, and Resilience Plan. This plan aimed to meet EU requirements for structural reforms, crucial for accessing funds.

Spain received an initial allocation of 160,000 million euros, with an additional 94,300 million euros[25] in an addendum. Progress in meeting goals has been rapid, aligning with the focus on key investments and reforms from 2021 to 2023. The budgets for 2021-2023 have incorporated approximately 25,000 million euros annually for productive investment.

The business sector is a major beneficiary of the Plan, receiving over 10,000 million euros for project implementation. Significant sums are also allocated to public investments in physical, digital, social, and knowledge infrastructures.

The Plan's management governance involves collaboration with political actors from the Autonomous Communities, as well as economic and social stakeholders. In the interest of

25.- The Addendum, approved in early October 2023, includes the mobilization of up to 83,000 million euros in loans from the Next Generation EU Funds available to Spain to finance investments by private and public enterprises through 12 funds and PERTEs (strategic projects for economic recovery and transformation). The Addendum considers that, through the combination of transfers and loans, it "has the potential to increase Spain's GDP by between 2.7% and 3.5% from now until 2025," without explicitly including the positive impact of structural reforms.

transparency and accountability, a robust control system has been established, which, while necessary, may pose a hindrance to the execution of business projects.

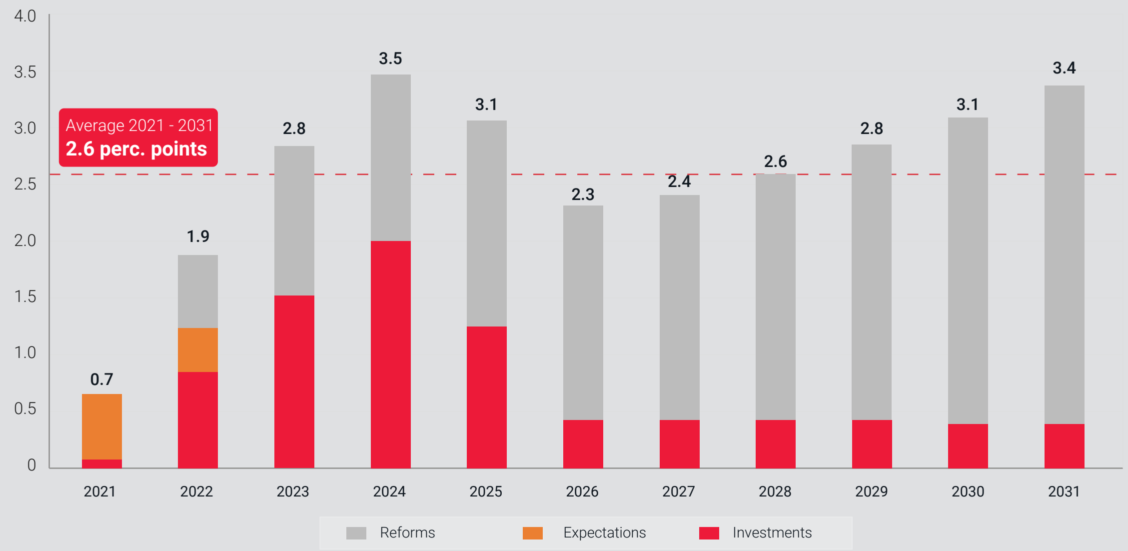
In addition to the investments deployed[26] through general calls, several Strategic Projects (PERTE) have been initiated, proposed by Autonomous Communities and key sectors of the Spanish economy[27], with a budget of over 40,000 million euros.

Likewise, there has also been progress in a program of structural reforms in labor, vocational training, and science. Other reforms aim to enhance the business environment for investors, including new legislation like the Startups Law, the Create and Grow Law (Ley Crea y Crece), and bankruptcy reform.

The impact of the NextGen EU Funds should be widespread

The estimated **aggregate impact by the Spanish government on the GDP** during the first phase of the Plan is an average of **2.6 percentage points per year** for the period 2021-2031. This implies, according to the government, that Spain's GDP will be between 30,000 and 40,000 million euros higher each year than it would be without the plan.

Figure 23. Macroeconomic Impact on GDP of the First Phase of the Plan. Deviation in percentage points from the baseline trajectory

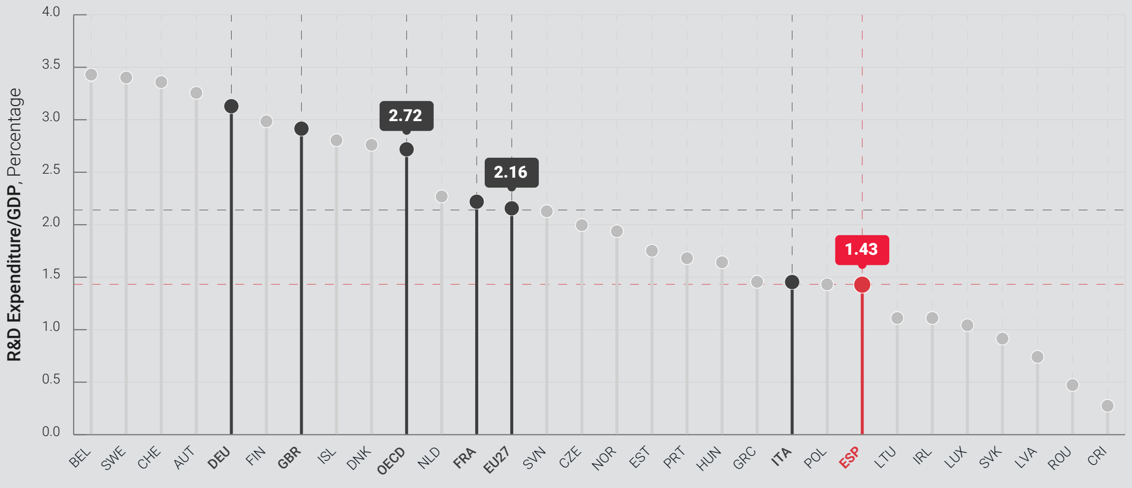


Source: Planderecuperacion.gob.es

The pages above highlight a gap in Spain's innovation and R&D potential, crucial for attracting more foreign investment. Given this, Spain aims to become a leader in innovation, on a par with its European counterparts, targeting an increase in spending from the current 1.4% to 2.98% of GDP by the end of the decade.

26.- Check the execution website of the Recovery, Transformation, and Resilience Plan.
27.- Electric vehicles, green hydrogen, cutting-edge healthcare, digitization of the water cycle, social and care economy, circular economy, decarbonization of industry, the new language economy, modernization of the agri-food sector, naval and aerospace development, and strategic autonomy in semiconductors.

Figure 24. Research and Development Expenditure as a Percentage of GDP, (2021)



Source: OECD (2023)

Becoming one of the top 20 countries in R&D+i requires **consistent economic efforts, attracting new talent, focusing on promising technologies, and fostering collaboration between the public and private sectors**. Political commitment, adapting regulations to current needs, and supporting the innovation ecosystem are crucial for success.

Well-planned public investments, like the Next Generation EU (NGEU) program, can positively influence private investments in R&D+i. This program provides a unique opportunity to boost innovation and improve tax incentives and direct subsidies for R&D+i projects.

The design and implementation of the NGEU program pose a significant challenge for Spanish public administrations, but they also present a great opportunity for modernization and digitization. The recent increase in funding for science and research, with the latest R&D+i budget reaching nearly 4 billion euros, the highest in history and a 98% increase in three years, should be sustained to achieve ambitious goals.

Aspirational goal: doubling Foreign Direct Investment (FDI) in Spain by the year 2030

The favorable conditions that Spain experienced over the last decade, detailed in the previous pages, led to a substantial rise of Foreign Direct Investment (FDI). However, by the end of 2023, the scenario for international investment doesn't seem promising in the short term.

Foreign Direct Investment (FDI) remains weak, with stagnant - if not declining - returns amid the instability of economic and geopolitical conditions, armed conflicts, and their multiple consequences. Major multilateral organizations and think tanks expected at the beginning of 2023 that investors would be more cautious in their decisions regarding FDI, echoing the instability and uncertainty. Indeed, the current situation is far from clearing up, to the point that reputable analysts describe it as a new normal.

The World Investment Forum 2023[28], held in October in Abu Dhabi under UNCTAD's auspices, paints a bleak picture for the future of international investment. The global economy is fragmented, impacting trade and investment. Cross-border Foreign Direct Investment (FDI) is continuously declining, as evident from global data in the first half of 2023.

The response strategies of multinational companies to new economic and geopolitical challenges, particularly regarding the international production landscape, are not well-defined. Significant movements in mergers and acquisitions and relocalization operations are expected.

Given this uncertain scenario, few can confidently predict the profitability of cross-border transactions and, consequently, international investment flows.

The Association of Multinationals with Spain believes it's crucial to set a realistic yet ambitious goal for promoting investment in the country. **This objective should leverage the positive momentum generated by the NextGen EU funds, which would help to sustain the positive investment trend observed in recent years**.

Some estimates to achieve the goal

The following analysis is an attempt to understand how Foreign Direct Investment (FDI) might evolve until the year 2030. The initial target is set optimistically, aiming to double FDI by 2030, and the analysis aims to identify the economic conditions necessary for achieving this goal.

FDI growth is calculated based on past trends, specifically the positive dynamics experienced in the previous decade. The estimation aims to predict the annual investment flows required to achieve the established target in 2030[29], taking into account the conditions needed to sustain international investment flow.

In essence, the analysis explores potential scenarios for FDI growth until 2030, considering historical patterns and the current global and national economic landscape:

- Global FDI growth is slowing due to uncertainties, changes in major investing blocs, and a decrease in investment profitability.
- FDI in Spain benefits from the potential multiplier effects of Next EU funds in a context of macroeconomic stability.

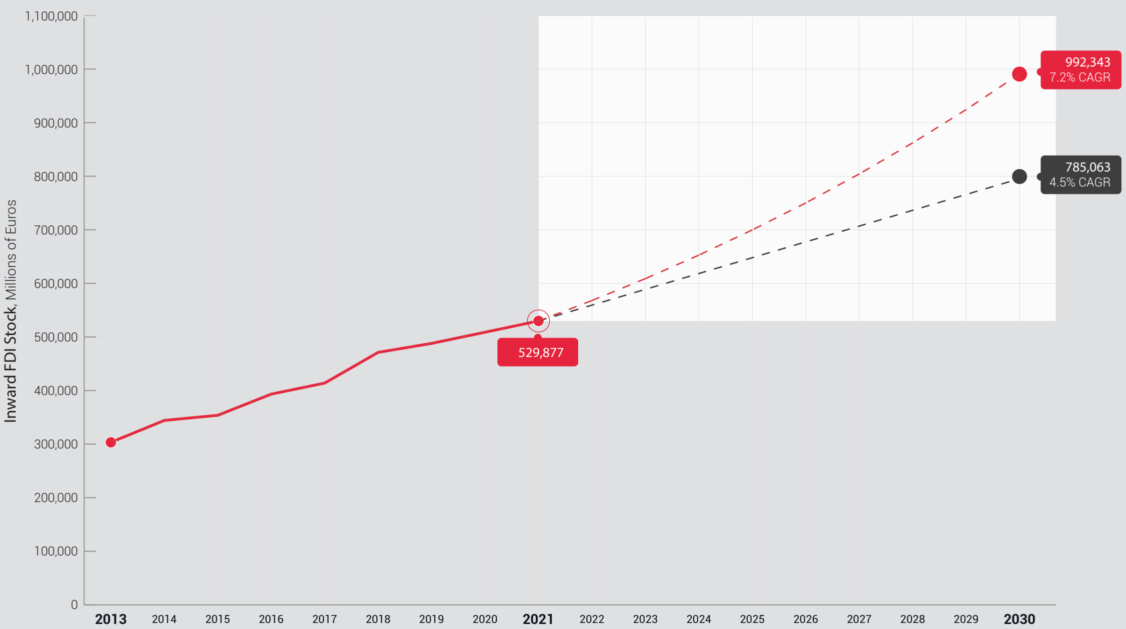
For the sake of simplifying calculations, it is assumed that the two opposing effects offset each other, resulting in stock growth rates similar to those of the previous decade.

The assumption is made that the composition of the investment stock will not undergo significant changes, bearing in mind that the weight of net equity value has notably increased compared to external financing for group companies since the end of the 2008 financial crisis[30].

Assuming the stock composition remains relatively stable, the models suggest that if the linear growth trend continues, the stock would reach 785,063 million euros in 2030, a 48% increase from the current figure. Alternatively, if the compound annual growth rate observed between 2013 and 2021 (7.2%, see Table 1) persists, the 2030 stock would be 992,343 million euros, an 87% rise compared to 2021, aligning with the aspirational goal.

28.- UNCTAD's 8th World Investment Forum 2023.
29.- The Non-ETVE investment stock in Spain, as per the RIE (Foreign Investment Registry), grew by 75% in nominal terms from 303,364 million euros in 2013 to 529,877 million euros in 2021. This represents an average annual growth of around 7.2% since 2013. Additionally, employment linked to Foreign Direct Investment (FDI) increased by over 50% during the same period, creating 592,613 new jobs. In total, there were 1,765,491 jobs associated with productive foreign investment in 2021. The growth in Spain's investment stock from 2013 to 2021 (226,513 million euros) required an average annual net investment flow of 20,191 million euros.
30.- The value of net equity increased from representing 78% of the total stock in 2014 to 89% in 2021.

Figure 25. Projections of the investment position - stock of FDI up to 2030, Millions of euros



Source: Own elaboration

To reach the targeted figures, Spain would need an estimated average[31] of over €42 billion annual net investment flows between 2023 and 2030.

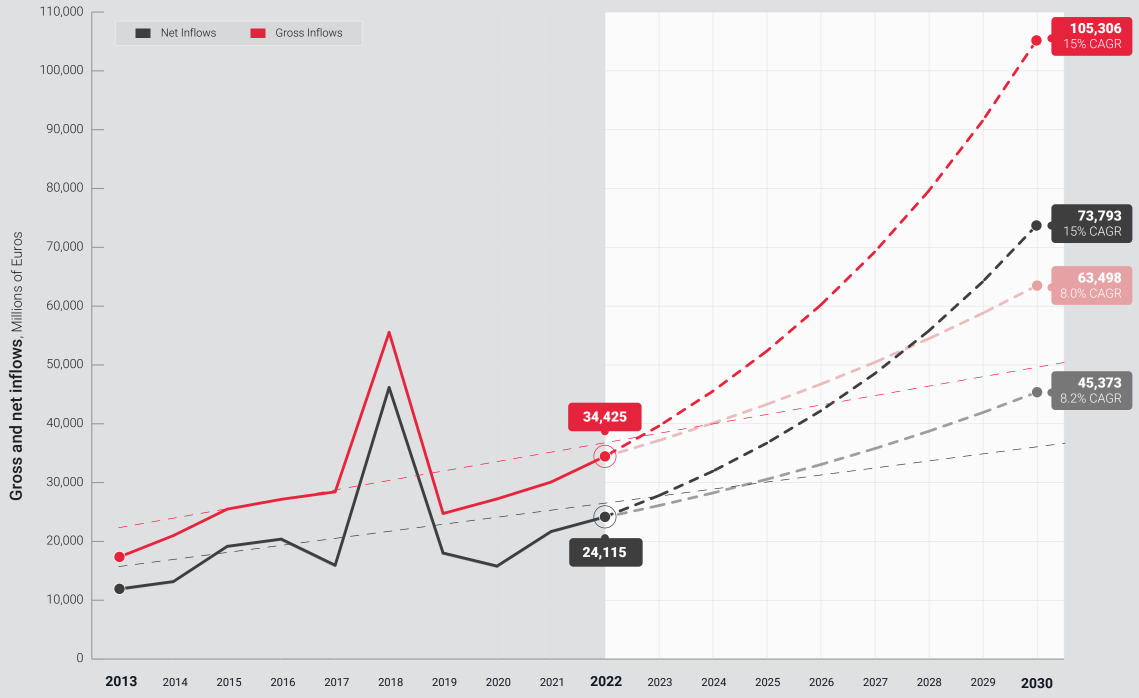
Comparing this goal with the 14 years it took to double the FDI stock from 2007 to 2020, it implies a need to halve the time while maintaining a significantly high average flow volume.

Considering the trend in gross and net flows from 2013 to 2022 and projecting them to 2030, achieving these flow volumes would require a substantial leap from recent years. The average annual net FDI flows received by Spain in the past decade (2013-2022) stood at €20.584 billion, with an average annual growth rate of 8.2%. If we project the flow evolution to 2030 based on the current trend, either linearly or by sustaining the cumulative growth rates, the levels would fall a third below the target. Achieving the goal would necessitate boosting the growth rate of gross and net flows to over 15% annually.

The following figure illustrates the expected levels of gross and net flows if current trends persist and the necessary leap to reach the desired stock levels in 2030.

31.- To calculate the average increase in annual flows required to achieve these investment volumes, it is assumed that the stock is equivalent to the sum of annual flows. This assumption implies that there are no adjustments for the valuation of investment assets reported by companies in their financial statements, no considerations for variations in exchange rates affecting valuations, and no significant changes in the external financing volumes of group companies. However, it's important to note that these estimates, which treat the sum of flows and stock as equal, have a certain degree of deviation. For example, the sum of net FDI flows in Spain from 2013 to 2022 is €205,838 million, while the difference in stock between 2013 and 2021 (one year less) is €226,513 million.

Figure 26. Projection of gross and net FDI flows up to 2030, Millions of euros



Source: Own elaboration

In short, doubling foreign investment in Spain won't be easy, but it's possible if external shocks don't disrupt current global investment conditions.

Notably, in the period from 2013 to 2022, foreign investment in Spain mainly involved acquiring (41%) Spanish companies, with around 60% being new contributions including greenfield or brownfield operations (19%) and other expansions.

To increase annual net flows to an average of around €42 billion, it's crucial for the Spanish business environment to be appealing to foreign investors seeking to expand their holdings. In 2021, the majority of foreign investment is in the equity of non-listed companies (94,3% of total equity). However, Spain lacks large industrial groups compared to other major economies, or the size of companies present in regulated markets or consumer markets. offering an opportunity for foreign investors but with limitations on the scale of potential operations.

Additionally, the country needs to showcase its assets, enhance economic and structural advantages, This way, reinvestment or new investments can be profitable and establish themselves in the long term. Achieving this ambitious goal is possible if these conditions are met.

The need for macroeconomic stability in a context free from external shocks is essential. Additionally, regulatory predictability and simplification are crucial, affecting not only regulations related to Foreign Direct Investment (FDI) but also those governing the operations of Multinational Enterprises (MNEs) in Spain.

The NextGen EU funds are a key factor that can make a significant difference in achieving positive outcomes. If the multiplier effects of the investment, resulting from the effective use of these funds, surpass initial expectations and enhance the profitability of international investment in Spain, the stated objectives will be more attainable.

The successful execution of these funds, ensuring promptness, transparency, and effectiveness in resource allocation, must be guaranteed by the new government. **It is crucial that investment control mechanisms and their application are agile and transparent, complemented by instruments promoting and facilitating foreign investments in Spain, all while maintaining efficiency and fairness**.

In this sense, the I**nternational Investment Attraction Plan for Spain 2024-2030** will become an essential tool to attract more investments. This plan will require collaboration between the new government and other public institutions and will count with the support of the **Association of Multinationals with Spain. The aim is to double the current Foreign Direct Investment (FDI) stock in Spain by 2030**.

ANNEXES

CHAPTER **FIVE**

ANNEXES

CHAPTER **FIVE.**ONE

List of figures

CHAPTER **FIVE.**TWO Summary Tables

CHAPTER **FIVE.**THREE Abbreviations and acronyms

- AI – Artifical Intelligence
- BdE – Bank of Spain
- DIRCE - Central Business Directory
- EA5 – Five largest economies of the Eurozone
- EIS - European Innovation Scoreboard
- ETVE – Entidades de Tenencia de Valores Extranjeros (Foreign-securities holding entities)
- EU – European Union
- FDI – Foreign Direct Investment
- FILINT – Statistics of Subsidiaries of Foreign Companies in Spain
- GDP – Gross Domestic Product
- GFCF - Gross Fixed Capital Formation
- GVAfc: Gross Value Added at Factor Cost
- GVC – Global Value Chains
- IMF – International Monetary Fund
- INE – Instituto Nacional de Estadística (National Institute of Statistics)

- MNE – Multinational Enterprises
- M&A – Mergers & Acquisitions
- OECD – Organization for Economic Cooperation and Development
- PPA - Power Purchase Agreement
- RIE – Foreign Investment Register
- SDG - Sustainable Development Goals
- STEM - Science, Technology, Engineering, Mathematics
- TIVA – Trade in Value Added
- UNCTAD – United Nations Conference on Trade and Development
- WAIPA – World Association of Investment Promotion Agencies
- WIPO – World Intellectual Property Organization

CHAPTER **FIVE.**FOUR

References and links of interest

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