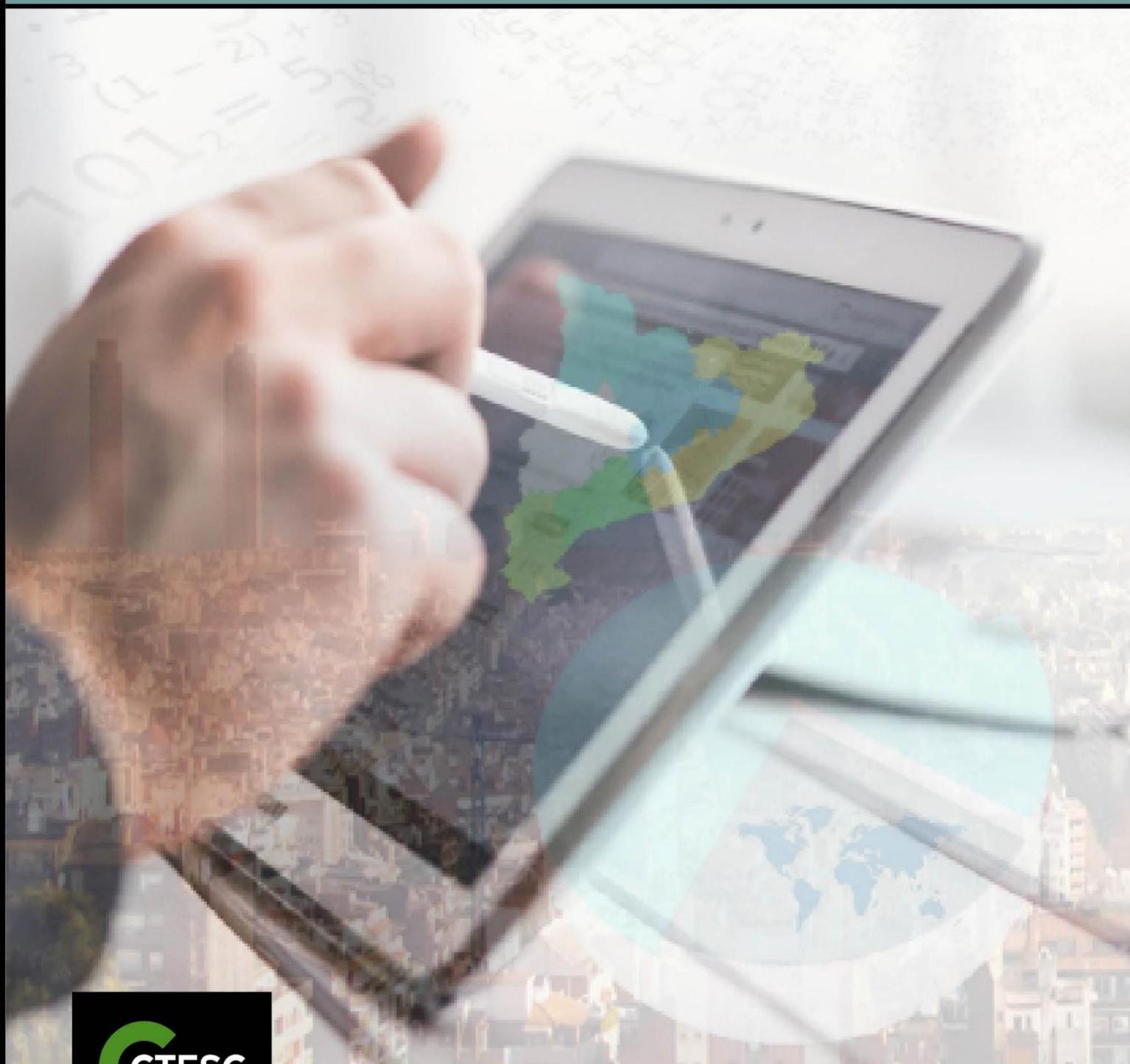


# Foreign investment in Catalonia

## Executive summary



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# FOREIGN INVESTMENT IN CATALONIA

## REPORT

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**Catalan Labour, Economic and Social Affairs Council (CTESC)**

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Barcelona, April 2016

## 1. EXECUTIVE SUMMARY

Foreign direct investment (FDI henceforth) is one of the factors that influence the growth of a territory, since it represents an input from the rest of the world which is incorporated to the productive capacity of the country, and historically has generated positive effects in terms of introduction of new technologies and gives a boost to internationalization.

The CTESC wanted to analyze the evolution of FDI in Catalonia in order to obtain an estimate of its magnitude and to analyze the economic evolution of the territory in an indirect way, especially during the period of the economic crisis.

### Data sources

Data sources available to study FDI in Catalonia are scarce. The basic sources of this Report are the Foreign Investment Registry (FIR) of the Ministry of Economy and Competitiveness, as well as data from FDI Markets provided by ACCIO. The first one is a source that mainly includes investment in companies by non-residents, which is only one part of what the balance of payments includes as foreign direct investment. The second source, even more restrictive, focuses primarily on investments in projects of new constitution in the territory (greenfield projects).

In order to compare the data from Catalonia at an autonomous level and at international level, we have also used data from the RFI, in the first case, and from the UNCTAD in the second, as well as statistics of the subsidiaries of foreign companies from INE and Eurostat.

### Importance of foreign direct investment for the economy

The study includes a review of the literature which focuses on the FDI impact for the Spanish economy and broadly suggests a positive effect at both macroeconomic (GDP, employment, etc.) and microeconomic scale (improvement of the total factors productivity of local firms which compete with foreign ones).

Later an approximation is made to the weight that foreign companies have in Catalonia for variables such as GVA or employment. It is observed that the weight is considerable, especially in industry and market services. Also, according to the Foreign Investment Registry (FIR), these companies occupy a minimum 9.5% of all people employed in Catalonia between 2007 and 2013, this being the most prudent source, because if we consider the statistics of subsidiaries of foreign companies prepared by INE (which only include industry and market services excluding finance), this percentage rises to 16.8% between 2008 and 2013 on average. It is even more meaningful if we consider the employed population of the subsidiaries in the last year known of statistics (2013), where it represents 18.3% of the employed population in Catalonia. Thus, even in the context of crisis and intense job destruction, the weight of the employed population by foreign subsidiaries has increased progressively since 2008.

### Features of the subsidiaries of foreign companies

The subsidiaries of foreign companies are much larger than local businesses, with greater apparent labour productivity and higher personnel costs per employee than those of local companies. During the crisis, the subsidiaries have reduced their average size (in turnover and number of employees) more than local companies, although both the expenditure per employee and the apparent labour productivity increased more in the subsidiaries than in the local companies (where these two variables have gone back).

In comparison with other regions and countries, we can see that subsidiaries overcome the local companies in turnover and number of employees everywhere, although in the case of Catalonia this difference is even more pronounced, as a result of the smaller size of the local companies. Nevertheless, with regard to the personnel costs per employee and the apparent productivity of labour, the difference between subsidiaries and local companies in Catalonia is smaller than in most European countries studied. Thus, the subsidiary in Catalonia presents 47.3% more apparent labour productivity than the local company, a difference that is higher in Spain (72.6%) and significant in the case of Ireland (284, 6%).

### Evolution

The evolution of FDI in Catalonia has had few outstanding variations over the past 20 years, although in certain years there has been a significant concentration of the volume of investment as the result of specific operations of

great magnitude. Thus, between 1995 and 2000 FDI in Catalonia represented 1.7% of GDP versus 1.4% between 2001 and 2007, and 1.5% between 2008 and 2014. Thus, FDI would have increased after the shock of 2008, a trend that was reinforced in 2015, when FDI increased 57.8% over 2014 and 58.8% compared to the average of the period 2008-2014.

An outstanding feature of this investment is that its main part is originated by operations to expand the existing production capacity (67.8% between 1995 and 2014 and 72.2% between 2008 and 2014), which reinforces the desire of permanence of the companies which are already installed in Catalonia.

Compared with Spain, the trend is exactly the same, with a total weight of Catalonia in relationship to the whole of Spain of 16.2% in the most recent period (2008-2014) and up to 22.0% in 2015. This value reaches 23.3% when analyzing data of FDI Markets based on greenfield projects. Thus, Catalonia is the second autonomous community regarding the received FDI after the Community of Madrid (which benefits from the “headquarters effect”), both when analyzed as absolute values or analyzing the weight of FDI over the GDP of each community for the period 1995-2014. However, Catalonia occupies the first place if FDI is analyzed with data of FDI Markets for the period 2003-2014.

In relationship to other countries, Catalonia is developing slightly better than the European countries, which are dominated by mergers and acquisitions, and where FDI has declined considerably (following FDI Markets, Catalonia ranks as the sixth region of Western Europe in FDI reception between 2003 and 2014), although unfavourably compared to the developing countries, where the investments in new production capacity predominate and where FDI has grown in recent years. Altogether, the weight of FDI in Catalonia compared to the world total apparently would have dropped.

According to the data of FDI Markets, new projects which start in Catalonia with FDI would have a smaller size, both in terms of volume of investment per project and in terms of jobs created, which is offset by the greater number of projects. This situation occurs in Spain and Western Europe.

## Analysis by sectors

In the analysis of FDI by sector, we can observe its greater relative importance in industry (2.8% of the industry GVA between 2008 and 2014), and in certain branches of the service sector, such as information and communications (1.9%) or financial and insurance activities (2.6%).

Regarding the distribution of this investment by sectors, it is concentrated in services and industry throughout the series studied, although it has lost weight in the latter in recent years. In terms of branches of activity and periods (1995-2000, 2001-2007 and 2008-2014) there is a weight loss of the manufacturing industry between the second and third period (-10,0pp between the first and the third period), as well as the gradual retreat of the FDI weight in information and communications (-5,5pp between the first and third period) and financial and insurance activities (-4,3pp between the first and third period). By contrast, it is remarkable the increasing weight of non manufacturing industry (+7,5pp between the first and third period), real estate activities (+ 3,8pp), wholesale and retail, repair of motor vehicles and motorcycles, transportation and storage, hotel business (+ 3,2pp) and construction (+ 2,6pp). In these last two branches, the percentage gain occurs between the second and third period.

FDI in Catalonia is slightly more concentrated in industry than the whole of Spain, and less within the services sector. However, Catalonia is one of the communities where the weight of industry over total FDI is lower, and one of the communities in which the weight of services is higher, which could be explained by the little weight that many regions have on the whole of Spain and the growing importance of the Community of Madrid, where the weight of industry is lower than that recorded in Catalonia.

If we analyze FDI by activity branches in Catalonia and Spain as a whole, it is possible to go deeper in the sector analysis. Thus, it is observed that, in comparison with Spain, investment in Catalonia tends to concentrate more on manufacturing industry (+ 13,5pp for the whole period from 1995 to 2014) and wholesale and retail, repair of motor vehicles and motorcycles, transportation and storage, and hotel business (+ 4,1pp for the period 1995-2014). Instead, it focuses less on non-manufacturing industry (-8,9pp in the period 1995-2014), information and communications (-9,7pp) and financial and insurance activities (-4,2pp).

## Analysis by source countries

The analysis of the FDI origin shows that its main part comes from European countries (81.7% of the total between 2008 and 2014), mostly from the euro area (62.9%), although the percentage has decreased compared with the previous period, since FDI from America (mainly in Latin America) has gained weight.

By countries, the main investors are the Netherlands (16.1% between 2008 and 2014), France (13.6%), Germany (10.2%) and the UK (11.4%), although data may be distorted by the existence of intermediaries, enhancing artificially the weight of the Netherlands, home to many entities holding foreign securities (holding companies) because of its tax treatment.

The evolution of Italy and Portugal is remarkable, since these countries have had traditionally an important weight of FDI in Catalonia (especially Italy), although in the last period they have reduced their contribution to 2.5% and 0.9% of the total (3.4% together); in the period 2001- 2007 they represented 14.5% (first investor) and 6.6%, respectively (21.1% together).

When analyzing FDI made in Catalonia in terms of the FDI that each country carries out worldwide, we observe the importance of Portuguese investments in Catalonia over the total investments made by Portugal. Instead, it is remarkable how the weight of Italian FDI in Catalonia over the total FDI of Italy, who was second in importance, happens to be less prominent in the last period.

In comparison to Spain, if we analyze FDI by investor country for the period 1995-2014, we observe that the Spanish distribution is similar to that of Catalonia, while the second depends less on the investment of the United Kingdom, Italy and France and more of that from the Netherlands, Luxembourg, Germany and Switzerland, although some of these countries (United Kingdom, the Netherlands and Luxembourg, mainly) may have been intermediaries of third countries via holding companies (ETVE), which complicates the comparative.

## Combined analysis by sector and origin

When FDI is analyzed taking into account its territorial origin and the target sector, we note that there are countries that concentrate their investments in certain sectors (Qatar, Israel, Ireland and Mexico), while others disperse it among a larger number of economic divisions (USA, UK, France and Belgium).

Likewise, there are economic divisions on which a large number of countries invest (the wholesale trade, information technology services and building construction), while others depend on a few countries (collection, purification and distribution of water and construction of civil engineering works).

## Determinants of foreign direct investment

Studying the reasons that companies have declared to be relevant to settle in Catalonia between 2003 and 2014, we observe that most of them value the growth potential of the domestic market (38.0% of projects), as well as proximity to markets or customers (33.6%). The availability of skilled workforce (19.5%) is also appreciated, as well as infrastructure and logistics (15.0%). Instead, there is a low percentage of projects that claim to have chosen Catalonia because of its low costs (5.3%).

The growth potential of the domestic market and proximity to markets and customers also appear as the main reasons to settle in Spain or in Western Europe.

## The stock of foreign direct investment

If we study the investment according to the headquarters location of the companies with FDI in 2013, we can observe that the investment position of the companies in Catalonia represents 16.7% of the whole Spain, far from Madrid, that accounts for 62.2% of the value of the positions, which is the result of concentrating the main part of their headquarters.

If we analyze the fixed assets of these companies (property, plant and equipment), we get a different perspective of the influence that FDI has in each community. Thus, in 2013, Catalonia concentrated 23.4% of the fixed assets of companies with FDI, over Andalusia (15.7%) and the Community of Madrid (14.6%).

## Foreign direct investment in Catalonia in 2015

The 2015 FDI registered in the Foreign Investment Registry amounts to 4,783 million, representing a 57.8% increase over 2014 and a 58.8% increase compared to the average of the period 2008-2014. As a result of this, FDI in Catalonia represents 22.0% of the total amount invested in Spain in 2015, 6,5pp more than 2014 and 6,3pp more than the average for the period 2008-2014.

By sector, comparing data from 2015 with the ones of the period 2008-2014, we can observe an increase of FDI in the four major sectors, being particularly outstanding the growth in construction (+ 235.8%) and in the services sector (+ 63.3%) and lower in industry (+ 18.1%) and agriculture (+ 10.8%). This means that the industry loses weight compared to the average of the period 2008-2014 (-9,2pp) in benefit of the services (+ 1,6pp), and especially of construction (+ 7,7pp).

If we analyze FDI in Catalonia in 2015 by country of origin, we should highlight the increases in investment in relation to the period 2008-2014 of the Netherlands (+ 105.4%), France (+ 84.0%), Germany (+ 63.8%), Mexico (+ 107.4%), Ireland (+ 251.2%) and "Other" category (+ 168.1%), which could indicate a greater diversification in the origin of investment. Also noteworthy is the decline regarding the period 2008-2014 of the United Kingdom (-20.1% and -5,7pp), the USA (and -3,9pp -30.1%), Italy (-73.9% and -2,1pp) and Portugal (-88.9% and -0,9pp). These two countries, traditional investors in Catalonia before the crisis, appear to continue the trend to reduce this amount.

According to FDI Markets, the other available source, during the year 2015 5,224 million euros were invested in Catalonia by foreign companies. This represents a 179.5% increase over 2014, and 122.5% higher than the average for the period 2008-2014. This investment volume places Catalonia as the fourth European region with more FDI in 2015, only after the South East of the United Kingdom (London), Scotland and the Central Federal District (Moscow).