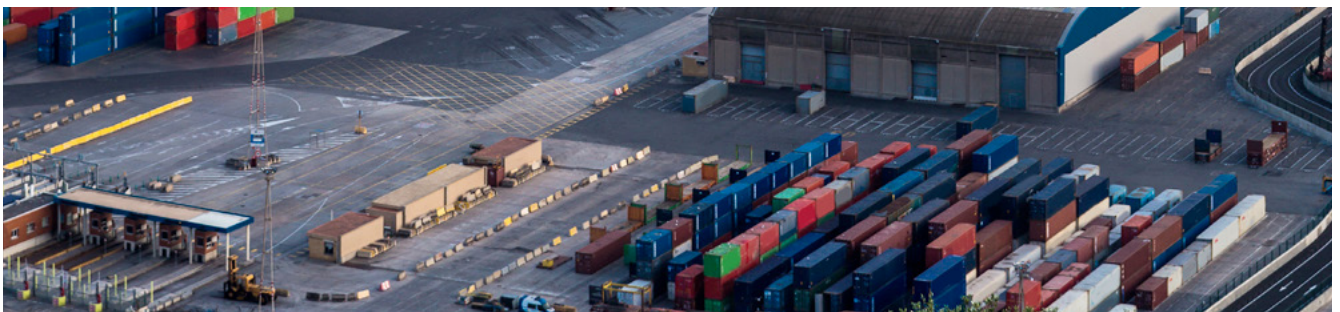




FOREIGN DIRECT INVESTMENT IN CATALONIA AND BARCELONA

Executive Summary and Conclusions. February - April 2017



Catalonia &
Trade & Investment



Generalitat de Catalunya
Government of Catalonia



Ajuntament
de Barcelona

Executive Summary

1.1 Methodology and Objectives

The objectives of this study are to **analyse the recent evolution of Foreign Direct Investment (FDI) in Catalonia and Barcelona**¹ and to **understand the perception that foreign companies have of Catalonia and Barcelona** as investment locations.

In order to prepare this study, both **quantitative and qualitative techniques were used**. For the quantitative analysis, several **investment statistical sources and databases were examined**, mainly UNCTAD, managed by the UN; Datainvox, by the Spanish Ministry of Economy; and fDi Markets, by the Financial Times. As for the qualitative analysis, different techniques were used: creation and gathering of a panel of **11 experts** in foreign investment, followed by **18 in-depth interviews**² and a **survey on 149 executives from foreign companies**. The most innovative aspect of this study is the fact that the **perceptions of companies that have never invested in the region** could be analysed through the in-depth interviews and the survey.

1.2 FDI Global Trends

In **open, innovative, and inter-connected territories**, FDI plays a key role as an enabler of economic growth and innovation transfer. The fact that **almost 14 million jobs were created around the world through FDI Projects**³ during the 2010-2016 period shows that investment can also become a driver for job creation and talent attraction. In this sense, **FDI is more important than ever before** and regions are in an intense competition to attract investment flows and projects to their territories. Catalonia and Barcelona need to keep making efforts to maintain the territory as a preeminent investment destination.

The study shows that **companies mostly invest abroad to access new markets**, since 65% of all respondents chose this option. The second and third reasons to invest abroad fall far behind access to new markets, but show two specific trends: companies investing abroad to innovate in processes or products/services and **proximity to products or services demanded by their local markets**.

It is also important to understand the factors that companies analyse when deciding on an investment location. According to this study, **the most important factor for executives when deciding where to invest is the market**: its size, level of openness and its growth potential. Institutional factors and costs hold second and third positions respectively. In that sense, costs stands out as a fairly important issue to respondents. However, **established companies in Catalonia not only fail to invest in the region because of its costs** but because of other more value-added elements. Besides the top three influencing factors when deciding on a location in which to invest, an additional reason seems very relevant for most companies interviewed: **human capital**. In fact, certain executives pointed out the **increasing relevance of talent availability as a key investment factor**.

¹ According to fDi Markets, references to "Barcelona" or "Barcelona Area" refers to its administrative region, equivalent to the third level of the Nomenclature of territorial units for statistics (NUTS 3) of the European Union. In the case of Catalonia, it refers to the province of Barcelona

² The interviews, survey and sessions with the expert panel were conducted between February and April 2017

³ fDi Markets database

1.3 Key Findings and Conclusions

Catalonia and Barcelona are leading European regions when it comes to attraction of foreign direct investment, reaching the highest level of FDI inflows during the analysed period. FDI inflows hit a **record high** for two consecutive years, with **€4,936 million in 2015, and €5,052 million in 2016**.

Additionally, Catalonia was the **first destination for FDI Projects in Spain**, accounting for 35% of all projects attracted between 2010 and 2016. These projects helped to **reduce unemployment by creating over 50,000 jobs** and boosted Catalonia's economy by generating \$20 billion of capital investment.

Catalonia and Barcelona consolidated their attractiveness to the largest economies in the world as well as to emerging countries in foreign investment. The **Top 5 investor countries** in Catalonia and Barcelona consist of three European countries (**Germany, France and the UK**) and the **US and Japan**. Additionally, 15.9% of all projects were from **Asian companies**, which **are the fastest-growing contributors to the world's FDI**. Catalonia was the main Spanish destination (with a 40% share) for FDI Projects coming from China, Japan and India.

Barcelona is a top-five European city in terms of foreign investment attractiveness. After London and Paris, **Barcelona had a leading position alongside Dusseldorf and Dublin** during the analysed period (2010-2016). 8.6% of all **FDI Projects in the EU-28** were in London, 4.2% in Ile-de-France (Paris region), 2.4% in Dusseldorf, 2.3% in Dublin, and **2.2% in Barcelona**.

Overall, investors perceive Catalonia and Barcelona as a very attractive place to invest. The region is rated globally at 3.7, on a scale of 1 to 5, with 5 being "very attractive to invest". **Asian companies are those that best rated the region, with 3.73 points**, followed by European and American companies, with 3.70 and 3.65 points respectively.

In terms of the location of survey respondents, **Asian and European companies have the best**

perception of Catalonia and Barcelona followed by the American ones, although the difference between the grading is not significant. Asian companies' good perception is especially relevant, since the **Asian market is an important FDI contributor**. The number of projects coming from Asian companies has been increasing steadily since 2010, representing 23% of all FDI Projects in 2016.

The importance of investors' perception of a region was also stressed. Since Catalonia and Barcelona are **competing as advanced regions** within Europe, there are no major differences in key **factors such as costs or macro-economic or institutional factors**. Therefore, the decision to invest is **greatly influenced by other factors such as the attractiveness of being an important hub or cluster for a sector, or to be perceived as an innovative destination** for certain economic sectors and value chain activities.

Highly innovative sectors find Catalonia and Barcelona a very attractive location for their investments. From a comparative point of view, established companies give greater importance to innovation as a factor of decision when deciding to invest abroad. The reason for this is that **Catalonia and Barcelona are more attractive to innovative companies**. In fact, Barcelona had a leading position within the EU in terms of FDI Projects in Design and Development and Testing and R&D.

Catalonia is set to become a strategic industrial pole in the process of reindustrialisation of advanced economies. In fact, the **Industry sectors led FDI attraction in Catalonia** during the period 2010-2016, representing 33.4% of the total flows with a €9,098 million investment. Among the most relevant industrial sectors, the **Food Products and Beverages, Pharmaceutical Products, Vehicles and Chemical** sectors stood out.

Companies that internationalise their **manufacturing activities** are those that have a better perception of Catalonia and Barcelona. This means that the **region is well-positioned in terms of attracting projects with a positive impact in terms of long-term investments and job creation**.

Barcelona leads the attraction of sectors and activities with a high impact in terms of jobs

and long-term investments. When comparing Barcelona's five most important sectors in terms of FDI Projects received, it **had a leading position** (fifth or above in the ranking) in **the Life Sciences and Transportation** sectors, as the second and the fourth EU region with the most FDI Projects received between 2010 and 2016 respectively.

Barcelona tops the attraction tables in several sectors in Europe even though these sectors are not the most important in the region. **Barcelona led the EU ranking in terms of FDI Projects** received for the **Warehousing & Storage** sector. Likewise, Barcelona ranked second for the Computer and Office Equipment and Textiles sectors. The other two sectors where Barcelona was within the Top 5 EU regions were the **Chemicals** and **Automotive Components** sectors.

In addition to the analysis of sectors, it is also relevant to analyse which activities companies' investments are destined for in the region. In this sense, when analysing the most important business activities in Barcelona by economic sector, it is notable that **Life Sciences, Chemicals and Automotive Components** mostly attracted investment for **Manufacturing** activities.

Catalonia and Barcelona's talent and education ecosystem is a strategic element for reinforcing the region's position in the global competition for talent. Catalonia and Barcelona are capable of **providing international companies with the talent they seek** by offering education and training programmes built around their needs. Currently, the fourth best-perceived factor in the region is the quality of its education system. **Human capital** offered by the region is **perceived very highly by international companies.**

Catalonia and Barcelona are key regional players for the Southern European and Mediterranean market. The **strong infrastructures network**, together with its geo-economic location can be used by established companies to **reach out to potential European and Mediterranean Basin markets**, as well as to establish corporate services near to their target markets. In addition to established companies, **half of the companies that are considering investing in Southern Europe have considered investing in Catalonia or Barcelona.**

1.4 Challenges and Opportunities for Catalonia and Barcelona

Catalonia and Barcelona have become a great location to invest. Nevertheless, there are some aspects in which the region can still improve its positioning.

Non-established companies perceive Catalonia and Barcelona as a region with leading scientific facilities, an innovative ecosystem, a significant start-up presence, local talent availability and international talent attraction capacity, head-to-business mind-set and a great quality of life, and their average rating for the region is 4 points out of 5. Therefore, Catalonia and Barcelona have great potential to attract new investments. The challenge is to attract investors that perceive the region as a pole of attraction for Southern Europe in which to establish their future projects.

Sectors such as Life Sciences, Transportation or Chemicals had a leading position in investment attraction in the region in the period 2010-2016. Nevertheless, Catalonia and Barcelona could still improve their regional positioning within the European Union in the attraction of sectors such as Software and ICT, Business Services, and Financial Services. Even though these sectors have a significant number of projects, the region is far behind London, the leading region, followed by Paris and Dublin.

Strategic sectors find top-class locations for their decision-making centres in Catalonia and Barcelona. Sectors such as Life Sciences, Business Services and Textiles are investing in the region for Headquarters activities. The region could improve its attractiveness for Headquarters activities in other sectors in which it has a leading position, for example in Chemicals or Automotive Components, where decision-making centres are not found in any of the investor companies' major activities.

Innovation, business performance and networking are key elements for attracting foreign investment in advanced economies. Catalonia and Barcelona's good positioning in these aspects should compensate the factors where Catalonia and Barcelona are **less positively**

perceived, such as those related to **taxation**, and **costs** (rental costs and energy costs). Although costs are the least positively perceived factors, international investors investing in Catalonia and Barcelona do not consider these factors very relevant. As such, Catalonia has to focus on fostering and consolidating itself as an innovation pole, since innovation is an important factor for companies not yet investing in the region.

The results of the study prove that Catalonia and Barcelona are among the most competitive regions in Europe in terms of FDI attraction.

Nevertheless, the study also proves that Catalonia and Barcelona can still increase FDI inflows and projects by fostering their strengths. It is a region capable of attracting industrial projects and highly innovative investments, of becoming a strategic destination for companies seeking international talent, and a great stronghold for reaching a bigger and growing market due to its proximity to European and Mediterranean Basin markets.

Conclusions

In this section, the main key findings in conjunction with the conclusions resulting from the conducted research are described.

1.

Catalonia and Barcelona, leading European regions in attracting foreign direct investment.

Catalonia and Barcelona are top-class regions in which to invest. Proof of that is that Catalonia's productive FDI inflows hit a record high for two consecutive years, with €4,936 million in 2015, and €5,052 million in 2016. These results are in line with how foreign companies perceive Catalonia and Barcelona as attractive regions in which to invest, rating them 3.7 out of 5 on the scale of attractiveness.

Catalonia was the first destination for FDI Projects in Spain, accounting for 35% of all projects attracted between 2010 and 2016. These projects helped to reduce unemployment by creating over 50,000 jobs and boosted Catalonia's economy by generating \$20 billion of capital investment.

After London and Paris, with an investment market share of 8.6% and 4.2% respectively, Barcelona holds a leading position in Europe in terms of attraction of FDI Projects alongside Dusseldorf and Dublin during the analysed period (2010-2016). Barcelona is the fifth region, with a 2.2% market investment share after Dusseldorf (2.4%), and Dublin (2.3%).

2.

Catalonia and Barcelona have consolidated its attractiveness to the largest economies in the world and to emerging countries in foreign investments.

The main contributors to FDI Projects in Catalonia are among the largest economies in the world. The top five consists of three European countries (Germany,

France and the UK) and two of the world's most powerful economies (the US and Japan). Of all the projects received in Catalonia, 19.8% were from the United States, 15.9% from Germany, 13.3% from France, 9.1% from the UK, and 7.3% from Japan.

Asian companies are the fastest-growing contributors to the world's FDI. Catalonia was the main Spanish destination (with a 40% share) for FDI Projects coming from China, Japan and India.

Asian companies are those with a better perception of the region, with a grading of 3.73 points, followed by European and American companies with 3.70 and 3.65 points respectively.

3.

Catalonia and Barcelona, a strategic industrial pole in the process of reindustrialisation of advanced economies.

Catalonia's manufacturing sectors had a leading position in FDI Projects attracted in the region, as the main ones in traditional sectors such as Chemicals, Textiles or Business Machines and Equipment. As a result, Catalonia is consolidating its positioning as a strategic destination to relocate manufacturing activities in a context of reindustrialisation of the European economy. Catalonia has become a pole of attraction for Manufacturing companies, with Barcelona ranking as the European region with the second most FDI Projects received for these activities between 2010 and 2016.

4.

Highly innovative sectors find in Catalonia and Barcelona a very competitive location for their investments.

Catalonia and Barcelona are more attractive to innovative companies, in this sense established companies give significantly greater weight to innovation. Barcelona had a leading position in FDI attraction in the EU for the Life Science and Transportation sectors. These were also the sectors with the highest impact in terms of job creation and capital investment generation per project. The Life Sciences sector, which is very strategic for the region, invests mainly in Manufacturing activities. Additionally, international companies from this sector find Barcelona attractive for Headquarters activities, increasing the added value of investments destined for the Life Sciences sector.

The Software & IT Services sector attracted the most FDI Projects in Catalonia (16% of total projects). This sector is highly reliant on skilled workers who can adapt to constant changes.

5.

Catalonia and Barcelona's talent and education ecosystem is a key element to reinforce the positioning of the region in the global competition for talent.

Catalonia and Barcelona are capable of providing international companies with the talent they seek by offering education and training programmes built around their needs. The human capital offered by the region is perceived very highly by international companies. To be more specific, the education system, skilled workforce availability and the existence of relevant training programmes for workers are among the best perceived factors by international companies. Additionally, the great quality of life in the region helps companies attract international talent.

The attractiveness of Catalonia and Barcelona in terms of talent and education is very important for investment attraction, since talent has become the most important asset for companies in the context of a digital and knowledge economy.

6.

Catalonia and Barcelona are key regional players for the Southern European and Mediterranean market.

The good perception of Catalonia and Barcelona's infrastructures is linked to the high perception that international companies have of their geo-economic location. Catalonia and Barcelona are perceived as key regional players in the Southern European and Mediterranean markets.

Barcelona is, in fact, the first EU region in terms of attraction of Transportation and Logistics FDI Projects. This reinforces the idea that Catalonia and Barcelona are very well-connected with Europe and other world regions through their first-class infrastructures, the second best perceived factor in the region. FDI Projects destined to the Transportation sector are among those with the highest impact in terms of job creation and long-term investment. These projects created 9,551 jobs and generated a CapEx of \$4,691M between 2010 and 2016.

The high quality of the infrastructures network, in conjunction with the geoeconomic location of Catalonia and Barcelona can be used by established companies to reach out to potential European and Mediterranean markets as well as to establish corporate services near their target markets.

Increasing airline routes at Barcelona's airport and connecting the Mediterranean Corridor with a freight network will contribute to continually improve the good perception of the region's infrastructures.

7.

Innovation, business performance and networking are key elements for attracting foreign investment in advanced economies.

Since Catalonia and Barcelona are competing as advanced regions within Europe, there are no major differences in key factors such as costs or macro-economic or institutional factors. Therefore, the decision to invest is greatly influenced by other factors such as the attractiveness of being an important hub or cluster for a sector, or to be perceived as an

innovative destination for certain economic sectors and value chain activities.

International companies perceive there is a large and competitive network of suppliers and providers in Barcelona, making the city attractive for doing business and creating synergies. The competitiveness of local companies is allowing Catalonia and Barcelona to become a first-class hub for strategic operations.

The perception of a region by companies is multi-factorial and should be analysed and worked upon taking this into consideration. In this regard, it is important to analyse investment opportunities taking into account hard factors as well as soft factors, with the latter determined by the established companies' own experiences.

Established companies are, themselves, an attraction factor for foreign direct investment. Positive performance increases their internal strategic positioning within their company group and against other local branches. This, together with a positive perception of the region where the branch is located, can significantly help to attract further investments from their parent companies.

8.

Strategic sectors find in Catalonia and Barcelona top-class locations for their decision-making centres.

Life Sciences, Business Services and Textile sectors are investing in the region for Headquarters activities. Promoting investment for decision-making centres of international companies helps position the region as an attractive location for other strategic sectors such as IT or Transportation.

As a result of receiving foreign investment for business headquarters, more and better investment opportunities arise around companies' headquarters. On the other hand, Headquarters investments tend to be more stable than investments in other activities which are more reliant on market fluctuations.

9.

Innovation and start-up ecosystems as a way to attract potential investment.

International companies have a good perception of R&D&i investment in the region, since they rate the factor 4.1 out of 5. This finding, along with the fact that a greater number of established companies are investing in Catalonia and Barcelona to innovate in products and processes, implies that Catalonia and Barcelona are attractive regions for highly innovative companies.

Barcelona is currently developing a strong start-up ecosystem. In a global context of Digital Transformation, large companies refer to start-ups as key players to foster their own transformation. As a consequence, the entrepreneur network of a region becomes an incentive for FDI attraction.

Catalonia and Barcelona, which are among the most innovative regions in Europe, are set to become innovation hubs. This favourable environment promotes the interest of international companies that are planning to invest abroad.

10.

Catalonia and Barcelona are a hotspot for potential investment opportunities.

Non-established companies perceive Catalonia and Barcelona as regions with leading scientific facilities, an innovative ecosystem, and important presence of start-ups, local talent availability and international talent attraction capacity, head-to-business mind-set and a great quality of life. In fact, half of the companies considering investing in Southern Europe are considering doing so in Catalonia and Barcelona.

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