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ANALYSIS OF FOREIGN DIRECT INVESTMENT IN THE BASQUE ECONOMY AND ITS COMPANIES AND ASSESSMENT OF ITS EFFECT ON COMPETITIVENESS

EXECUTIVE SUMMARY

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Executive summary

Foreign direct investment (FDI), both outbound and inbound, is relevant to an economy because it can contribute to its economic growth, job creation, technology transfer, and integration into cross-border value chains, as well as international economic spaces. Just as investment in business structures abroad is an indicator of maturity, sophistication, and competitiveness of an economy, the ability to attract FDI in a territory is indicative of its attractiveness, the competitiveness of its production factors, its investment climate, and its degree of integration into markets characterized by large-scale demand and/or high levels of demand.

By extension, and with the Strategic Projects for Economic Recovery and Transformation (PERTE), the Recovery, Transformation and Resilience Plan, and the means that Europe offers to repair the damage caused by the COVID-19 crisis as a backdrop, there is a growing interest on the part of governments (national and regional) in involving foreign investors to promote and carry out projects that correspond to the PERTE projects. This generates a sort of competition among policymakers and an interest in diagnosing how attractive and successful a territory is that wants to participate in this race.

Against this backdrop, the report "Analysis of foreign direct investment in the Basque economy and its companies" investigates the state of inbound and outbound FDI in the Basque Country. We observe that the amount of inbound FDI is structurally lower than the amount of FDI that Basque companies undertake abroad over time. We also see that inbound FDI is concentrated in a few sectors and operations, and that the majority enters in the form of acquisitions of existing companies.

Likewise, it turns out that foreign direct investment that enters in the form of Greenfield, the creation of new business projects, and in the form of expansion or enlargement of existing facilities represent a very small percentage within the total of inbound FDI in Euskadi, and that the vast majority is destined for acquisitions.

Inbound FDI in the CAPV by mode of entry, based on individual operations

Entry mode	Percentage of total during the period 2014-2021
Acquisition	87%
Greenfield	1%
Expansion	12%

Source: Own inventory based on information from FDI Markets, SABI, and press releases.

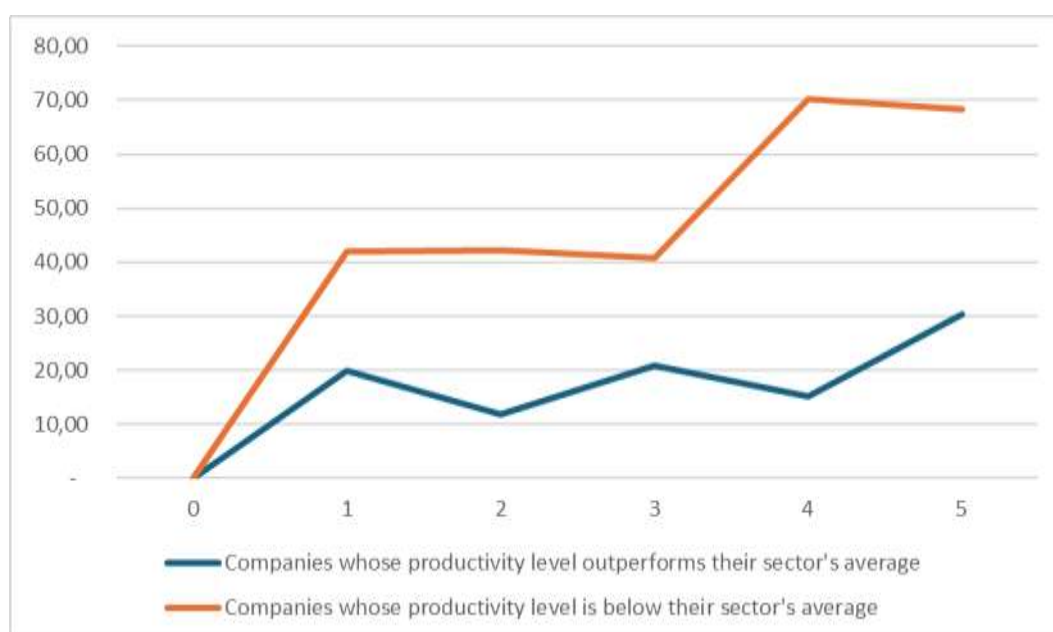
In comparison with three Autonomous Communities that served as benchmarks in this analysis of FDI in the Basque Country's economy and its companies, the results of the Basque Country are in line with or better than those of Navarre and Catalonia during the period under consideration, but they clearly lag behind what the Madrid Region achieves (as the capital of the country hosting many national delegations and headquarters of foreign companies, resulting in a concentration effect of FDI in it).

Incoming FDI expressed as a percentage of GDP by Autonomous Community

CC. AA.	2014	2015	2016	2017	2018	2019	2020	Average 2014-2020
Catalunya	1,57	2,69	3,89	1,55	1,93	1,62	1,46	2,10
Madrid	11,68	11,32	11,61	16,34	40,27	12,4	16,89	17,22
Navarra	0,16	0,25	4,48	0,19	0,98	0,6	0,63	1,04
País Vasco	4,14	2,37	3,19	2,47	2,77	1,21	2,42	2,65

Source: Own elaboration based on data from DataInVex.

Through an analysis of the evolution of productivity among around twenty Basque companies acquired by foreign buyers, and distinguishing between companies that -before their acquisition- obtained labor productivity ratios higher or lower than the ratio of the sector to which they belong, we see that the acquired companies improved their productivity during the period following their acquisition. Therefore, FDI helped improve the competitiveness of the companies in question.

Evolution of labor productivity since the year of acquisition

Source: Own elaboration based on data from SABI and Eustat.

Finally, we conducted a complementary qualitative analysis of the experiences of a sample of Basque companies acquired by foreign entities. This analysis shows that the Basque companies in question positively value the effects produced by the entry of a foreign investing entity into their ownership, as their potential to develop new products and markets and their ability to invest and grow improved and/or a risk of business decline was avoided. From the study conducted, various recommendations can be inferred for decision-makers in the Basque economy and, in particular, Basque institutions,

regarding aspects that affect incoming FDI. If incoming FDI in the form of Greenfield investment is to be increased, it is important to work on the following aspects at the territorial level:

- Land and business real estate policy: availability/creation of buildable land in industrial estates and business parks, for example, for industrial, logistics, and data center companies, and connections (multimodal) to transportation infrastructure.
- Technological and knowledge infrastructure policy: availability/creation of technology and R&D centers, especially to attract high-value-added business activities, so that they can rely on these assets in the vicinity.
- Industrial/cluster policy: develop/consolidate local supply chains so that manufacturing investments focused on complex productions and requiring sophisticated inputs from third parties have supply networks in close proximity. Relatedly, support digital transformation among local companies to facilitate interactions with Smart FDI projects.
- Labor policy: foster a serene work environment, good industrial relations, and a low absence rate.
- Education policies: articulate an educational offer that allows for the continuous development of knowledge and (digital) skills among the human resources to be employed and that helps attract foreign talent to the territory, including talent of schooling age.
- Integration policies: expand possibilities for soft landing for expatriates in forms of accommodation, integration, schools.
- Providing a safe environment: security (both legal and physical) is an area that contributes to the attractiveness of a territory in attracting FDI and is directly related to quality of life as a broader concept.



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