Barcelona: A magnet for foreign direct investment

"The future of FDI is about cities, not countries," says a report by IESE's Public-Private Sector Research Center on FDI in the Mediterranean city.

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Even in the midst of the global economic crisis, Barcelona has proven itself to be a magnet for foreign direct investment (FDI). During the period from 2007 to 2013, FDI fell in Europe by 72 percent and in Spain by 47 percent, yet it grew in Barcelona and its region, Catalonia, by a total of 50 percent.

A report on foreign direct investment in Barcelona by IESE's **Public-Private Sector Research Center** and the Barcelona City Council's economic development initiative, Barcelona Activa, highlights the many things that Barcelona is doing right to attract foreign investment and how it might encourage the trend to continue.

A star in multiple sectors

According to available data, the region of Catalonia receives 20 percent of Spain's total FDI, up from just 7 percent before the crisis. The city of Barcelona is home to 7,000 foreign offices and accounts for 91 percent of foreign companies settled in Catalonia. Some 46 percent of foreign companies operating in Spain have at least one office in Barcelona.

Barcelona is the top destination for FDI in continental Europe and first among European cities without a native English-speaking population. Ahead of Barcelona, only Dublin and London received more FDI, both in terms of capital invested and jobs created when construction jobs are excluded, due to their temporary nature.

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Information and communications technology (ICT), logistics and the automotive industry are three key sectors attracting FDI in Barcelona. Investments in Barcelona's ICT sector have recovered and even exceeded pre-crisis levels. The Barcelona ICT-mobile industry is benefitting from its reputation as the world's mobile technology capital and related service activities.

The Barcelona region stands out as the leader in Europe's logistics and design sectors. Furthermore, it ranks within Europe's top five in 12 out the 15 sectors considered by the study. Those twelve sectors are: construction, ICT, logistics, mobility, retail and consumer goods, biotechnology and life sciences, tourism, food and agriculture, creative industries/ media, design, energy, and higher education and research.

What Barcelona does right

But what accounts for Barcelona's popularity as an investment destination? According to the experts consulted via focus groups, questionnaires, interviews and surveys for this study, the Catalan capital has a number of factors that influence investor decisions:

- *Intangible assets*: The image and brand of Barcelona is shaped by its associated quality of life -- taking into account its public and private schools and universities, local transportation services, security, climate, seaside location and even its architecture. If choosing a European base, why not choose a pleasant one?
- *Well-qualified, low-cost work f*orce: The labor available in Barcelona is highly educated, but wages are low compared with other cities in Western Europe. There's also a large international pool, also attracted by Barcelona's high quality of life.
- *Developing business ecosystems*: Business ecosystems encompass links with suppliers, customers, business partners, research centers and knowledge networks. Barcelona has worked to create business ecosystems in various sectors (e.g., ICT and biotechnology) and the resulting opportunities to collaborate and network are viewed positively by investors.
- *Improving perceptions*: Foreign investors located in Spain were more likely than outsiders to invest and reinvest in Barcelona and be satisfied with their investments. As perceptions improve, more foreign investors are coming in to invest and reinvest.
- *Appeal in emerging markets*: Already a preferred destination for firms from Europe and Japan, Barcelona is starting to attract firms from emerging markets -- including firms from South America. For Asia-based firms, the port of Barcelona provides a convenient entry point for shipping goods intended for Western Europe.

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In sum, Barcelona is viewed positively around the world, despite Spain's struggles during the economic crisis. Its quality of life attracts people from all over. Its transportation and logistics infrastructure, educated workforce and networking opportunities are also boons to those setting up shop.

According to those surveyed, institutional and administrative obstacles along with the economic and political uncertainty are the strongest barriers to investment. Consequently, (1) establishing a clear reform agenda and (2) assuring that legislative and political action will not have retroactive or unpredicted effects are two ways to help safeguard future FDI flows in the region, according to the report.

How Barcelona can harness its potential

The report lays out various recommendations for how Barcelona can continue to improve its profile to receive further FDI, including:

1. Improve intercontinental connectivity to position itself as "the best city in the best time zone."
2. Emphasize that Barcelona is well placed to be a base for sales within Southern Europe or even the whole continent. It also boasts access to Latin American markets.
3. Open up to Asia. The report notes that Barcelona and its port represent the first great entry point in Europe coming from Asia. While Japanese companies are already investing in Barcelona, Chinese and South Korean companies could follow suit. Given that Asia's FDI multiplied by 10 over the past 10 years, Barcelona would be wise to try to compete with other European cities for Asia's investments.
4. Become a "one-click city." Hosting the Mobile World Congress and promoting a Smart City project have already helped Barcelona earn a tech-friendly image. Barcelona could further foster tech innovation to make life easier for its inhabitants. Using the emergence of the smartphone and other technologies, it could become a true "one-click city."
5. Encourage an entrepreneurial mindset. "Fresh start" legislation to help reduce the burden of business failure could help locals take on a more entrepreneurial mindset. Spain is one of the few European countries without such legislation on its books.
6. Develop the city's brand on a global level. This includes getting the word out about Barcelona's strengths, continuing to cut red tape, developing connections with the rest of Europe and promoting its diverse university and industrial base.

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"The future of FDI is about cities, not countries," the report concludes. Investment experts today are more likely to compare London, Birmingham, Madrid and Barcelona than they are to simply compare the United Kingdom with Spain. Promoting itself as world-class city with quality-of-life advantages, an attractive labor force and beneficial geographic location and infrastructure, the Catalan capital may continue to be an FDI magnet. Barcelona's offerings should be tailored for the different investor profiles, the authors note.

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