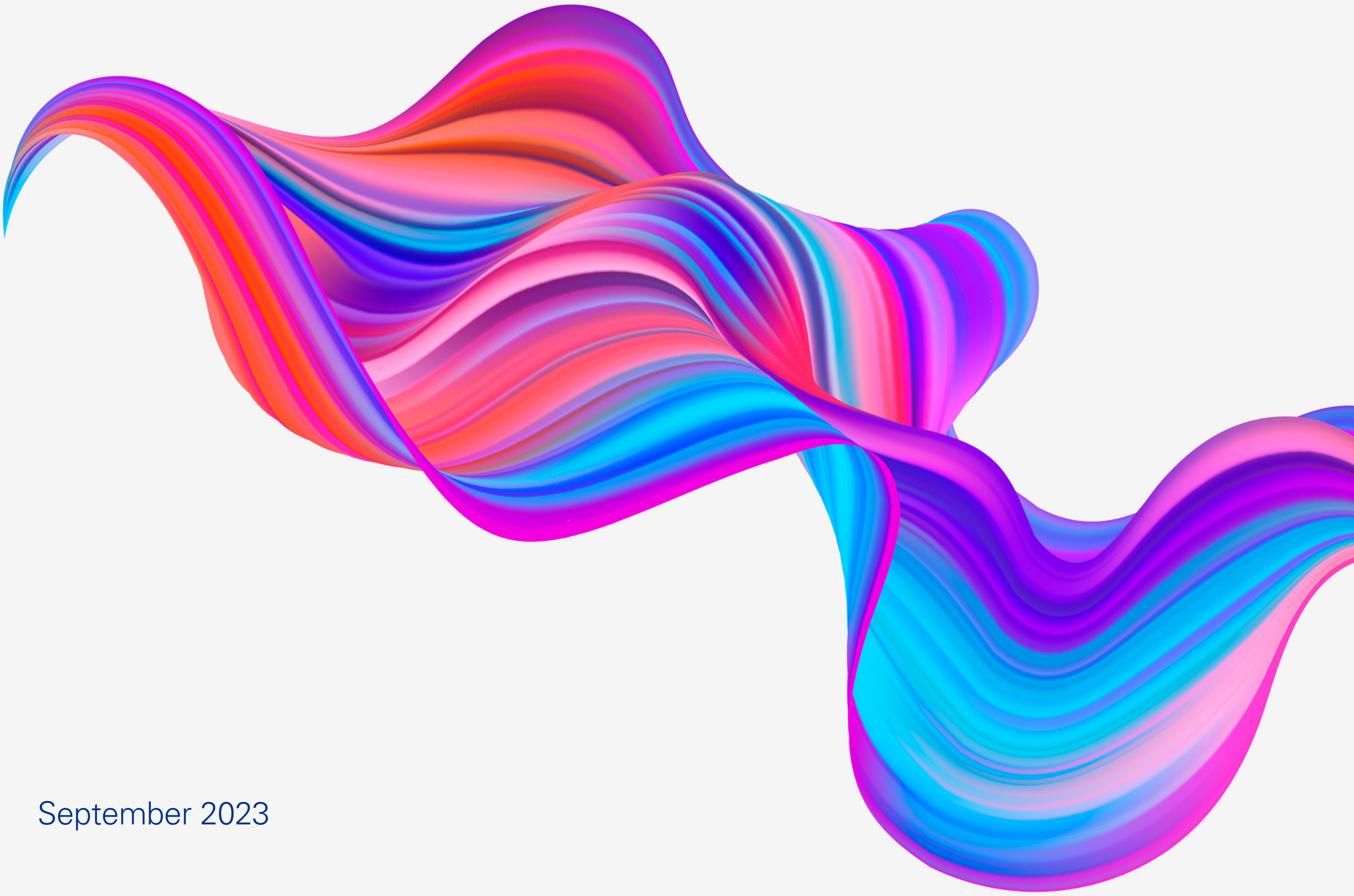
Chinese FDI in Spain: Global Outlook 2023

ICEX-Invest in Spain China Desk

KPMG China Practice



September 2023

About this report

"Chinese FDI in Spain: Global Outlook 2023" is a comprehensive survey of the experiences and views of Chinese foreign direct investment (FDI) in Spain. The survey provides insights into the perceptions of the Spanish investment climate of Chinese companies established in Spain, their views on business development, growth prospects, as well as business and operational strategies they foresee in the country.

In April and May 2023, ICEX-Invest in Spain and the KPMG team sent an online anonymous survey link to senior executives in Chinese-owned companies with investments and a presence in Spain. These companies operate in a broad range of sectors, including banking and insurance, consumer and retail, energy, information technology, infrastructure and engineering, transport and logistics, manufacturing, telecommunications, life science, and leisure and tourism, among others. In total, 80 valid responses were received.

In addition, to supplement the survey findings, ICEX-Invest in Spain and the KPMG team conducted eight in-depth interviews with executives of these Chinese-owned companies. We interviewed executives of both private and state-owned firms from a wide range of backgrounds and industries.

ICEX-Invest in Spain and KPMG gratefully acknowledge the generous support of the China Chamber of Commerce and Investment to Spain in facilitating the collaborative efforts.

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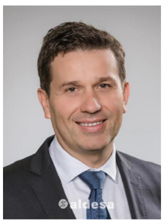

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Executive Director of ICEX-Invest in Spain

To its inhabitants, China is known as Zhōngguó (中国), the central country. This aspiration of centrality, driven by Chinese culture itself, has become an indisputable reality at a global level. China is now one of the world's geopolitical focal points. Very few countries in history have come so far in such a short time as this Asian giant has. China is already the second global power in terms of GDP and has also reached a position of global leadership in terms of international trade.

The Chinese economy currently has a solid and dynamic corporate landscape that draws on cutting-edge technology. At present, 346 Chinese businesses are among the world's 2,000 most important corporations, according to the 2023 Forbes Global 2000 Companies List.

Thanks to this dynamic business structure, China is a global power in manufacturing, the export of goods and is at the forefront of technological innovation. Furthermore, the Asian country has also become one of the largest capital exporters globally. In fact, outward FDI stock from China has increased fivefold in just ten years, rising from the equivalent of US Dollars 532 billion in 2012 to over US Dollars 2.5 trillion in 2021.

This is a very impressive figure, but it is still well below its potential. Chinese investment reflects a relatively low volume given the scale of the country's economy. Outward FDI stock from China barely represents 15% of China's GDP. This is a rather low percentage when compared to foreign investment made by developed countries, such as the United Kingdom, France, Spain and the United States.

Over the coming years, we will likely see the coalescence of major Chinese investment projects in developed countries, albeit in a more uncertain and fragmented international context compared to the previous decade. These investments will also have to take into consideration screening mechanisms and foreign investment controls, which are already a reality in a growing number of countries.

Spain is a country extremely open to foreign investment. According to the FDI Regulatory Restrictiveness Index, Spain is the ninth least restrictive OECD country for foreign investment from a regulatory perspective. Once established in Spain, foreign investors, whatever their nationality, receive exactly the same treatment as their Spanish counterparts.

This is the regulatory framework that awaits Chinese companies when putting down roots in Spain. Against this backdrop, investment in Spain by Chinese companies is evolving in a similar fashion to that of direct investment by the Asian giant globally. Its investment stock in Spain has risen from the equivalent of Euros 46 million in 2010 to reach over Euros 10 billion in 2018, a figure which has remained relatively stable since. These statistics make China the 12th largest investor in Spain.

China's significance as an important world power, its pivotal role in the geopolitical challenges the world is currently facing and its growing relevance as an investor in Spain, are just some of the factors that have brought about the preparation of this document "Chinese FDI in Spain: Global Outlook 2023", which has been drafted in conjunction with KPMG's China Practice. The primary purpose of ICEX-Invest in Spain is to attract foreign direct investment in the country that is both sustainable and that creates quality jobs. We firmly believe that gaining an in-depth understanding of the current Chinese FDI reality in our country and its contribution to our economy is key to ensuring that we perform our work even better.

David Höhn
Partner Head of China Practice at KPMG Spain

We are delighted to present the "Chinese FDI in Spain: Global Outlook 2023" report, in collaboration with ICEX-Invest in Spain. This comprehensive investigation explores experiences and perspectives regarding Chinese foreign direct investment in Spain and provides valuable insight into the perceptions of Chinese companies operating in the country. The report also sheds light on their views regarding investment, business development, growth prospects, and business strategy.

In 2022, China became Spain's largest goods supplier. As we celebrate the 50th anniversary of diplomatic relations between China and Spain this year, it is an opportune moment to reflect on the strong economic ties between the two nations. This joint effort between ICEX and KPMG demonstrates our proactive approach to fostering a deeper understanding of and promoting this economic relationship. We foresee that cooperation between China and Spain will expand into various fields in the coming years, including the digital economy, agriculture, automotive manufacturing and renewable energy development, among others.

Chinese companies have emerged as major players in many sectors of the Spanish economy, including transport and logistics, energy, information technology, manufacturing, life sciences, and infrastructure and engineering, among others. Their significant contribution to economic development, job creation, and bilateral trade between China and Spain has become increasingly important over the past decade. Moreover, most Chinese companies believe that strong bilateral relations at institutional level between China and Spain are hugely important for steering their businesses successfully in Spain.

Based on this report, conducted through surveys and personal interviews, almost 80% of Chinese company executives foresee economic growth in Spain during the 2023-2024 period. Their overall view for the next 12 months is optimistic, expressing confidence in achieving increased sales, growth in investment, and employment stability. This optimism is embedded in their strong commitment to advancing digital and sustainable transformation, where they recognise that success in these areas will determine their medium and long-term growth prospects in an increasingly competitive and changing environment.

However, these executives also emphasise the need to further develop institutional support in Spain for their business activities. For example, they expect to receive comprehensive information concerning tax incentives related to research and development, innovation, and new investments. In addition to these topics, talent management poses a new challenge. Chinese companies are aware that the capabilities and skills of professionals are vital for developing differentiated offerings and delivering added value to their clients. Consequently, they consider cross-cultural management and talent retention a key priority for their organisations.

We would like to express our gratitude to the China Chamber of Commerce and Investment to Spain for its invaluable support in facilitating our collaborative efforts. At KPMG, we take great pride in our honoured membership of the Chamber, and its assistance has been instrumental in ensuring the success and reach of this survey.

We hope that the insights and findings presented in this report contribute to a deeper understanding of the current Chinese FDI situation in Spain, the outlook for growth in the future, and that this will serve as a foundation for enhancing cooperation between the two nations.

Key findings

41% of the companies choose to establish subsidiaries, while **25%** opt for branches, indicating a long-term committed presence in the Spanish market.

Chinese companies tend to increase their investments in countries where they have a higher volume of exports.

The period between 2015 and 2017 saw a significant investment inflow of Chinese companies to Spain.

Spain's strategic geographical location and its role as a gateway to the European Union and Latam market make it an attractive investment destination.

The Chinese investments show a high level of concentration in the Madrid region and Catalonia, while their sector distribution among the companies surveyed is quite diverse.

More than **30%** of the companies surveyed have reported that they have received state incentives for training and employment in Spain.

60% of the companies view Spain as a favourable environment for innovation, leading some of them to establish research and development centres in the country.

81%
of Chinese companies report positive results in terms of their progress in integrating ESG into their strategic and operating model.

The integration of expatriates is generally smooth. There are strong affinities between the Chinese and Spanish cultures, sharing similar values and frameworks.

Executives consider cross-cultural management and talent retention a key priority for their organisations.

The outlook for macroeconomic and sector growth in Spain over the next 12 months is largely positive.

The most important area that Chinese-owned companies consider for conducting business in Spain is the continuous improvement of operations, among others.

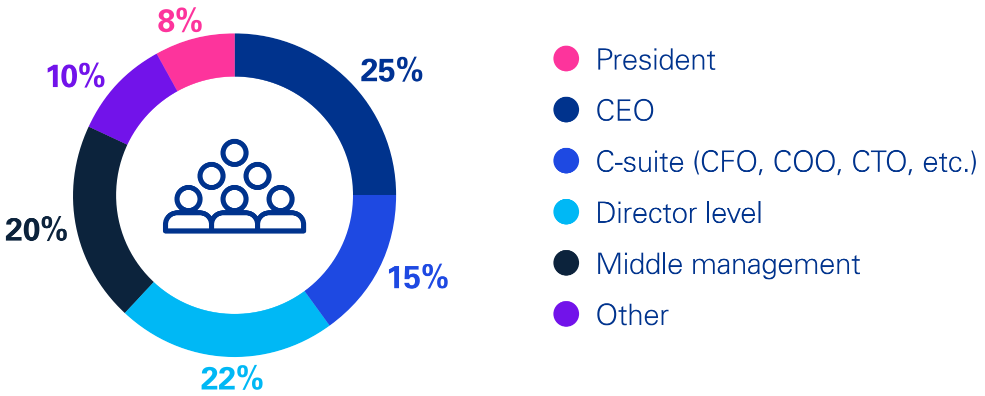
Most Chinese-owned companies operating in Spain are planning to expand their presence both in Spain and in international markets within the next year.

01 Survey demographics

Chinese companies have become increasingly involved in various sectors of the Spanish economy through foreign direct investment over the last decade. In this section, we aim to provide an overview of Chinese-owned companies established in Spain. This snapshot encompasses various data points, including the type of establishment (subsidiary, branch, M&A, joint venture, etc.), geographical distribution across regions, and a breakdown of the industries in which they operate. Furthermore, we present data on their turnover and exports in 2022, and their investment in R&D in Spain.

Based on the survey conducted among senior executives of Chinese-owned companies established in our country, it can be inferred that many of these companies entered the Spanish market during the second decade of this century, between 2015 and 2017. These survey results also highlight a significant level of commitment to the Spanish market, evident from the chosen modes of establishment by the companies surveyed. However, the distribution of these companies across Spain is not evenly spread, with a concentration in the Madrid region followed by Catalonia. In contrast, the breakdown of sectoral activity shows a high degree of heterogeneity, lacking a distinct pattern.

Position of our survey participants



There is a clear long-term commitment to the Spanish market

Regarding the type of establishment of the various companies surveyed, a significant proportion are "subsidiaries" and "branches". The presence of M&A can be attributed to investments made between 2015 and 2020, in line with the trend of Chinese investment in Europe, which has increasingly involved the acquisition of companies and brands. M&A has emerged as the primary mode of expansion for Chinese multinationals, serving as an essential means to acquire important assets in Europe. In Spain, these acquisitions have mainly focused on sectors such as Agri-Food, Environment, Construction-Infrastructure, Engineering, as well as other areas like Transport and Logistics, and Energy. Furthermore, a minority of companies are classified as "representative offices" and "joint ventures", with "representative offices" corresponding to sales offices.

Chinese-owned companies mostly established in the last decade

According to the survey data, 65% of the companies set up their presence in Spain between 2010 and 2020. The highest number of companies were established during the three-year period 2015-2017, accounting for 30% of the companies surveyed.

It is worth noting that despite the COVID-19 pandemic, with international travel restrictions in place in China, and new foreign investment regulations in Spain aligned with the European Commission's guidelines, 10% of the companies surveyed established their presence in Spain between 2021 and 2023.

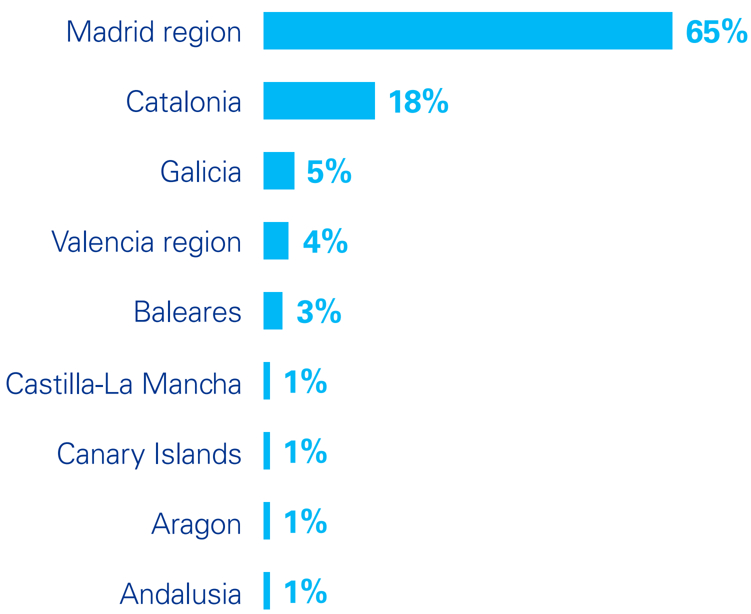
These findings are in line with statistics from the Foreign Investment Register of the Ministry of Industry, Trade, and Tourism, which indicate that Chinese investment inflows in Spain remained at very low levels until 2010. From that point onwards, there was a significant increase in Chinese investment, driven by large investment groups joining other Chinese companies with a long history in Spain. Spain became an attractive gateway to European and Latin American markets. Chinese investment flows in Spain began to gain relative importance for the economy, reflecting the trend seen across Europe and the world. The "Go Global" initiative launched by the Chinese government in the early 2000s led to a surge in Chinese investment globally, with many companies expanding abroad. In the case of Spain, the significant influx of Chinese companies occurred from 2012 to 2018.

Furthermore, the parent companies of Chinese-owned companies established in Spain demonstrate extensive internationalisation. Among the companies surveyed, a total of 76% have a presence in other countries, primarily in various European countries. In Western Europe, they report a presence in the United Kingdom, Germany, France, Portugal, Greece, Austria, the Netherlands, and Turkey. In Eastern Europe, their presence can mainly be observed in Serbia, Croatia, the Czech Republic, Slovenia, Romania, and Hungary.

High geographic concentration, a diverse range of sectors, and company turnover, with strong emphasis on R&D activities.

Regarding the geographical distribution within Spain, there is a significant concentration of the companies surveyed in the Madrid region, followed by Catalonia, with the remaining distributed unevenly among Galicia, the Valencia region, the Balearic Islands, Castilla-La Mancha, the Canary Islands, Andalusia and Aragon.

Companies surveyed in Spain by region



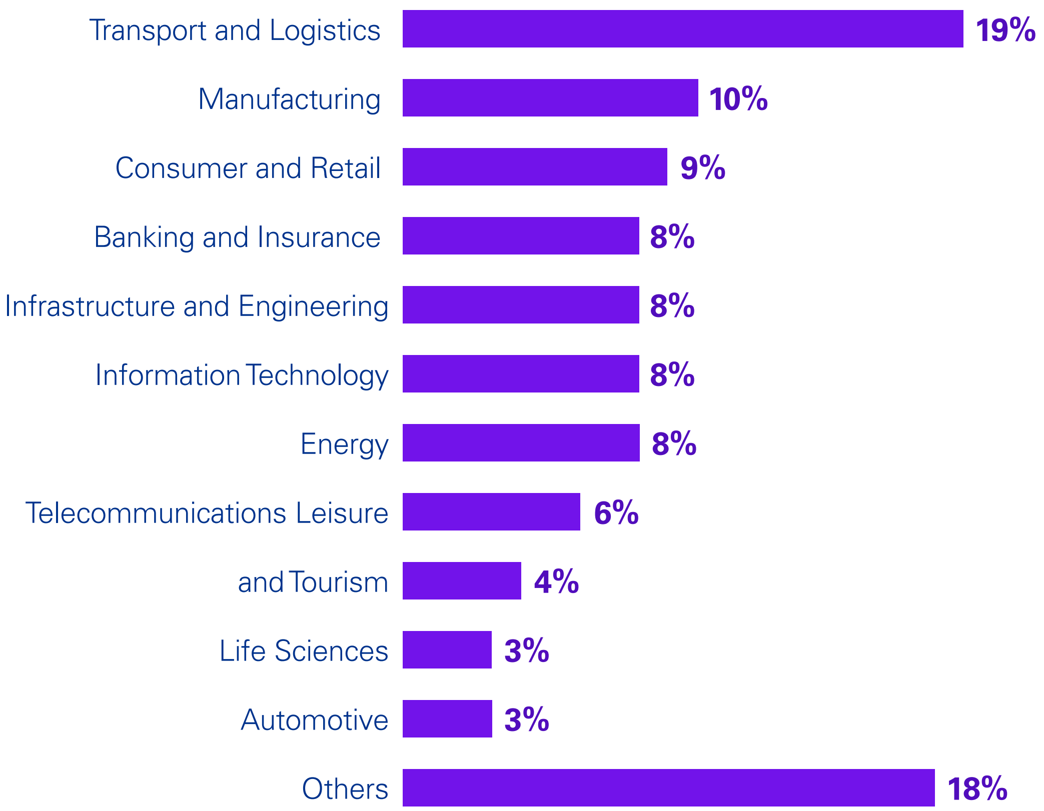
Regarding the activities of the Chinese companies surveyed, they are involved in diverse sectors. The standout sector is "Transport and Logistics", with a particular focus on maritime transport and port logistics, including the acquisition of maritime container terminals.

Aside from this sector, Chinese capital investment is distributed heterogeneously across various sectors in the Spanish economy, without a clear sectoral pattern. Some companies concentrate on Manufacturing, Banking and Insurance, Consumer and Retail, Information Technology, and Infrastructure and Engineering. The latter sector has experienced a boost due to recent acquisitions of Spanish construction and engineering companies, which have increased since 2020.

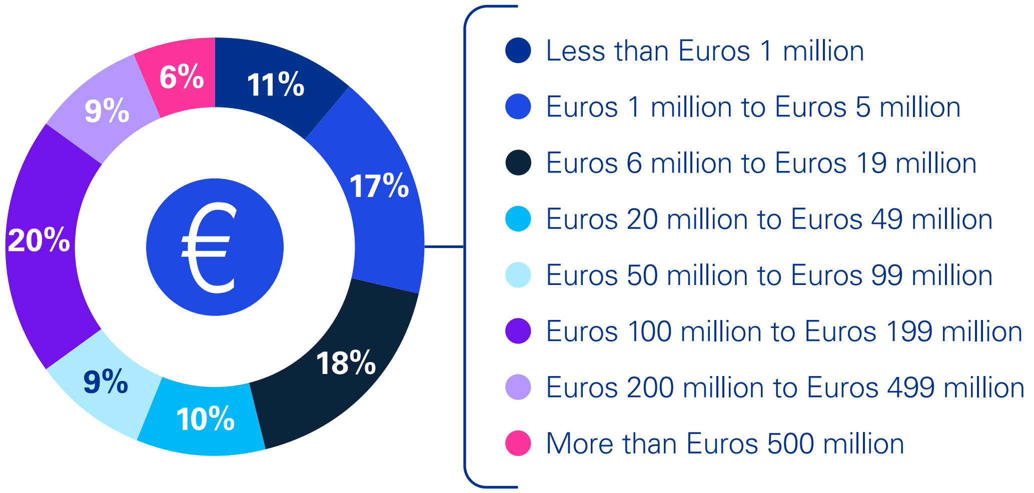
The Telecommunications sector is represented by major Chinese companies that have established themselves as leading brands in the smart phones and computer equipment segments. The Leisure and Tourism and Life Sciences sectors are characterised by the acquisition of hotels and specialised clinics, respectively. In the Other Sectors category, companies from various industries can be found, including agriculture, fisheries, home appliances, law firms, healthcare, and public services.

It is worth noting the limited presence of companies in the Automotive sector, accounting for only 3% of the companies surveyed. However, ICEX-Invest in Spain has identified an enormous interest of Chinese companies in the electro-mobility sector and in the establishment of production plants in Spain.

Companies surveyed in Spain by sector



Companies surveyed in Spain by turnover



In terms of staff, the companies surveyed are varied in size in Spain and include SMEs and large companies. Almost half of them fall in the 1-10 employees or 11-49 employees brackets, while medium-sized companies (50-250 employees) represent 35%, compared to 23% for large-sized companies with more than 250 employees. The latter correspond to large telecommunications and IT companies and companies that have made acquisitions in the Construction, Engineering, and Life Sciences sectors.

In terms of exports among the companies surveyed, it should be noted that 60% of the surveyed companies export part or all of their production. This can be linked to the excellent evaluation of Spain as a platform to access other markets, according to the companies surveyed.

On the other hand, it was discovered that 30% of them sell their goods and provide their services exclusively in the Spanish market. Additionally, 35% of the companies export less than 25% of what they produce. This implies that many companies view Spain as an appealing and significant market. Another possible explanation for this market focus is the presence of subsidiaries of Chinese multinational corporations in other countries, which have been established to target specific countries beyond Spain.

60%

of the companies view Spain as a favorable environment for innovation

R&D has become a vital element in various sectors of activity. According to the survey, 34% of the participating companies stated their investment in R&D in Spain. Note that specific Chinese-owned companies have selected Spain as the destination for establishing their R&D centres, with the aim of supporting their European subsidiaries. This emphasizes Spain's importance as a hub for R&D investment among Chinese-owned companies.

Bo Wang
General Manager
China Construction Bank (Europe) Spanish Branch
Sector: Banking

"We are very satisfied with the overall business environment in Spain."

Q: As one of the most important Chinese banks established in Spain, are you generally satisfied with the business environment? Do you have any specific comments to make on regulatory requirements?

A: The banking and financial industry is particularly prominent. Our focus is on political, social, and financial stability, exchange rate and interest rate stability, as well as financial regulation transparency. Spain's economic structure, based on its economic size and population, provides favourable conditions for different types of financial enterprises to find their own space. We are very satisfied with the overall business environment in Spain. The market is inclusive and generally welcomes foreign investment. Spain's market regulatory requirements are relatively stringent, which means that its standards can cover other European Union countries faster, saving a significant amount of regulatory costs in operations, IT, and administrative management. It may enable a centralized approach to a certain extent, avoiding redundant execution for many companies.

Q: We would like to know your perspective on the significance of bilateral institutional relations between China and Spain. How influential are these exchanges for your company's business development in Spain? Do you have any suggestions for future collaborations?

A: All companies expect a stable and friendly political environment and government-level exchanges. Frequent and friendly institutional exchanges between the two nations will enhance economic and trade relations and improve access to information for companies. In terms of commerce and business, deeper and more intense exchanges between the two countries' high-level government officials will enhance the depth and breadth of collaboration. There is great potential for cooperation in the financial sector, where the Madrid Stock Exchange can collaborate more with China's financial markets. For instance, the London, Frankfurt, Luxembourg, Shanghai, and Shenzhen stock exchanges are already interconnected, allowing, inter alia, market integration, cross-listing, and financial product distribution.

02

Business climate and company operations in Spain

This section focuses on the assessment provided by executives of the surveyed Chinese-owned companies regarding the business climate in Spain during 2023. This assessment enables the identification of key strengths that need to be maintained, as well as areas requiring greater attention and efforts. The main areas evaluated pertain to Spain's labour market, taxation system, regulatory environment, institutional support, market size, infrastructure, logistics platforms, distribution channels, access to financing, availability of aid and incentives, human capital, innovation and digitalisation, sustainability criteria, integration of expatriates, and quality of life.

We have analysed the primary reasons cited by the companies surveyed for investing in Spain through personal interviews with senior executives. Notably, geographical location, market size, and infrastructure emerge as the most highly valued factors. In terms of assessing the business climate in Spain, executives place significant emphasis on quality of life, market size, access to other markets, infrastructure, and integration of expatriates.

Furthermore, special attention is given to Spanish and Chinese institutional relations and the evaluation provided by executives. Nearly nine out of 10 companies consider this area to be extremely important.

We have also sought their opinions on tax incentive applications, digital transformation, and ESG matters, including sustainability in their daily business operations. They have expressed that these issues are at the top of their agenda in terms of promoting more sustainable development in Spain.

Many Chinese-owned companies prioritise continuous learning and improvement. By regularly assessing their ERP (Enterprise, Resource and Planning) management and digital strategies, these companies demonstrate a proactive approach to keeping pace with the dynamic business environment in Spain.

The success of these efforts also depends on the investment and implementation by these companies in human resources areas. Factors such as resource allocation, talent development, and organisational culture play significant roles in determining the outcomes of such initiatives.

Main reasons for investment and establishment in Spain

Chinese-owned companies have indeed shown a growing interest in Spain as a location to establish their businesses. Several factors contribute to this choice, including geographical location and market size as the most voted.

Spain's geographical location offers strategic advantages for Chinese companies seeking to expand their operations into Europe and beyond. Spain serves as a gateway to international markets. The country boasts a significant market size with a population of over 48 million people. It represents one of the largest consumer markets in Europe, providing ample opportunities for Chinese companies to tap into various industries and sectors. The market offers a diverse range of consumer preferences and demands, allowing Chinese-owned companies to cater to different segments.

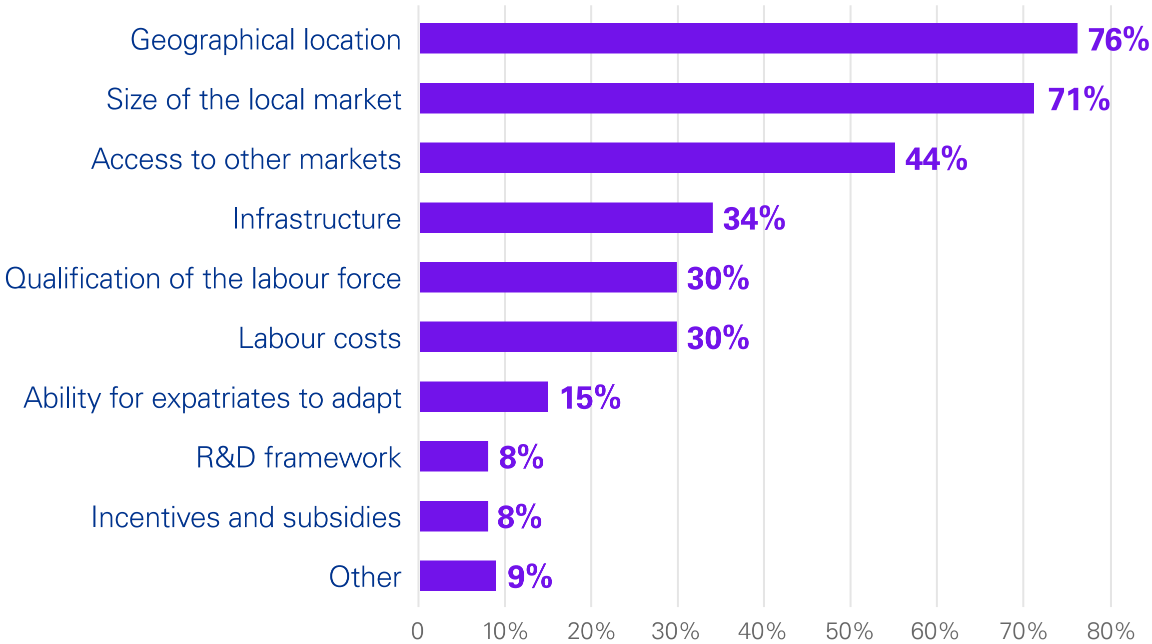
As mentioned above, Spain's position in terms of access to other markets ranks third as a reason for setting up in our country. It is therefore clear that Spain's strategic geographical location as a platform for accessing the EU, North African, Middle Eastern and Latin American markets for cultural reasons is an essential factor for the companies surveyed in deciding to establish themselves in Spain.

Approximately one third of executives surveyed consider the quality of infrastructure in Spain to be a priority reason for establishing their businesses. Spain's well-developed transportation, logistics, and communication networks provide a solid foundation for companies to operate efficiently.

Around 30% of the companies surveyed view labour costs as a significant factor in choosing Spain. The comparatively competitive labour costs in Spain make it an appealing destination for companies looking to optimise their operational expenditure.

Similarly, 30% of the companies surveyed acknowledge the qualification of the Spanish workforce as a reason for establishing their businesses in Spain. The availability of skilled and educated professionals provides companies with the talent pool necessary for their operations.

Reasons for investment and establishment in Spain



The objective of accessing new consumers through FDI is a common goal for many multinational corporations, including Chinese companies. This is particularly true for Chinese investments in Europe, where the search for new international markets is a significant driver. China tends to invest more in countries to which it exports most, often establishing sales offices to facilitate market penetration. In the case of Spain, market access is a key motivation for Chinese companies. They view their investments in Spain as a strategic gateway to the European and Latin American markets.

According to the survey, Chinese companies rate the market size very positively, with an average score of 8 on a scale of 1 to 10. A significant 60% of the companies surveyed consider that the size of the local Spanish market merits a score of between 7 and 10, indicating its attractiveness for marketing their products and/or services. Moreover, only 17% of the companies surveyed rated the market size below 5. This assessment is in line with similar studies conducted among foreign companies, which consistently highlight market size as one of the primary attractions for investing in Spain.

Overall, Chinese-owned companies in Spain prioritise market access, particularly the size of the European and Latin American markets. They view their investments in Spain as an effective means to tap into these markets, highlighting the market size as a significant advantage for doing business in the country.

Shanmei Yu
General Manager, Keewaymotor Spain
Sector: Automotive

"The insights gained from the Spanish market are instrumental in our R&D, design, and future technological advancements."

Q: Which areas of the business climate does your company highly value in Spain?

A: We highly value the Spanish market size and its position within the EU market. Spain is the fourth-largest consumer of motorcycles in Europe, behind Italy, Germany, and France. The country has a strong motorcycle culture and tradition, with Barcelona having the highest motorcycle ownership per capita in Europe. This makes it a significant market for Keeway Group, as many individuals in Barcelona own 1.5 to 2 motorcycles. The insights gained from the Spanish market are instrumental in our research and development, design, and future technological advancements. Furthermore, the mature consumer market and overall design control in Europe provide valuable guidance for our operations in China.

Q: Working in a multicultural team that includes both Chinese and Spanish executives can be challenging. How do you evaluate the integration of Chinese executives into the Spanish team?

A: In our company, we have created a highly localised environment, where I am the only general manager of Chinese origin. We understand the importance of effective communication and mutual understanding between our Chinese and Spanish teams. By focusing on shared interests and values rather than differences, we foster a harmonious working environment. Our colleagues are treated like family, promoting empathy and support. Fortunately, all our employees share a passion for motorcycles, which further strengthens the team.

Q: What are the prospects for your company in the coming year in terms of investments, expansion, and strategic planning?

A: The design and technical support for our products are carried out in Italy and Spain, while production and industrialisation take place in China. Thanks to the well-developed ports in Spain, logistics are convenient, enabling efficient shipping from Ningbo to Barcelona. Additionally, our group has made significant investments in a new logistics facility located in the industrial area of Polinyá, covering an area of 6,000 square metres. Currently under construction, this warehouse will enhance our operational capabilities. Looking ahead, once the facilities are established, we may even consider forming our own R&D team in Catalonia, further strengthening our presence in the region.

Evaluation of the market size for distribution of products and/or services in Spain

60%

of companies surveyed rate "Market size" and "Access to the EU" as excellent or very good

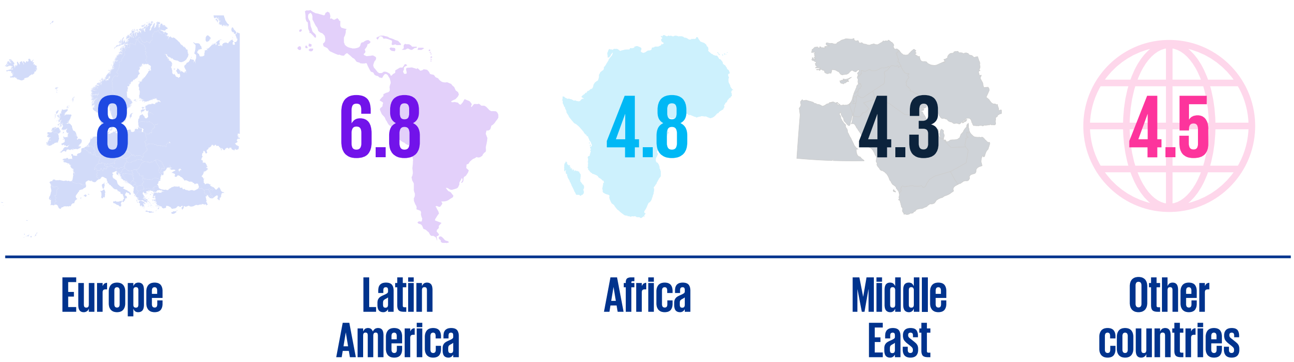
Furthermore, Spain's strategic position makes it a highly valued point of access to other markets, particularly the EU. 60% of respondents rated this aspect as excellent or very good. The ability to leverage Spain's location for accessing the EU market, with 450 million consumers, is a significant advantage recognised by these companies.

Regarding other regions of the world, "Access to Latin America" stands out with 38% of companies rating it as excellent or very good. However, Africa and the Middle East meet fewer expectations as viable markets for business development from Spain, as indicated by the executives surveyed.

Additionally, the companies surveyed mentioned other regions such as the United Kingdom, the United States, Australia, China, and Asia. These regions are seen as promising areas for business expansion. In the current geopolitical environment, companies are adopting internationalisation strategies with a greater focus on nearby markets or regions.

Based on these results, it can be concluded that the "Size of the local market" and "Access to other markets" are highly relevant factors consistently identified as primary attractions for investing in Spain. Therefore, it is crucial to pay special attention to these aspects when considering business opportunities and investment strategies in the country.

Access to other markets: average score out of 10 based on the number of responses received from each region



Ignacio Herrero
CEO, China Three Gorges (Europe) S.A
Sector: Clean energy

"Spain is a pioneer in fields such as digital transformation and occupies a fairly high position in relation to other countries in Europe."

Q: How do you assess the regulatory environment in Spain? And regarding the "screening" mechanism for foreign investments implemented at European level, how does it affect CTG in Spain?

When assessing the regulatory environment in Spain, particularly for a company in the energy sector like CTG, we find that it is clearer than what we have observed in other countries. We have been established in Spain for some time now, and we have a good understanding of this framework. As a Chinese state-owned company acquiring a significant market share, we have been pioneers in navigating certain types of investments. Compared to other countries where Chinese companies have a lesser presence, Spain stands out with a more developed and transparent regulatory framework. Moreover, access to institutions is relatively easier in Spain.

The foreign investment legislation does impact us, particularly since a significant part of our growth strategy is based on inorganic expansion through active participation in mergers and acquisitions. The framework is clear, and we have felt well-supported by the different administrations. Moreover, a new royal decree has been approved which reduces the FDI approval period from six to three months.

Spain is of significant importance to CTG as it has proven to be a positive surprise. In spite of the circumstances of the pandemic in 2020, we were granted authorisation to purchase 572 MW.

Q: How do you assess the trend of digital transformation and innovation in Spain?

A: Regarding digital transformation and innovation, CTG is still in its early stages, but we acknowledge the need to accelerate our efforts. Spain, being a pioneer in areas such as digital transformation, ranks relatively highly compared to other European countries. Government policies actively promote digitalisation, and there is a favourable ecosystem in place. Local and multinational companies have advanced levels of digitalisation and significant market penetration. It is essential for us to align ourselves with the momentum that the Spanish economy carries in this direction. If I had to rank Spain among EU countries in terms of digitalisation, I would confidently place it in the first quartile.

Bilateral relations at institutional level are key

Bilateral relations at institutional level play a crucial role for Chinese companies, and they closely monitor the development of these relations between governments, as well as the level of acceptance and welcome of Chinese investment in the destination country.

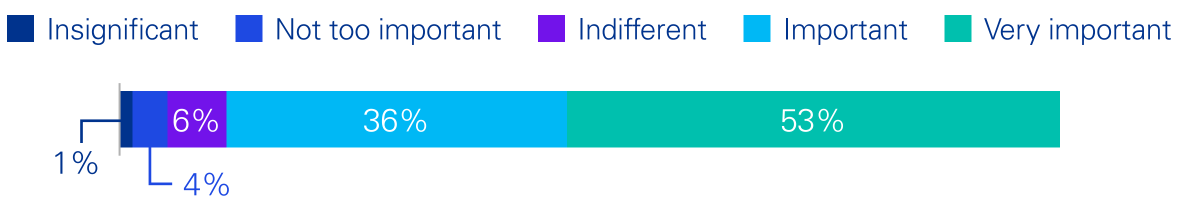
In the case of Spain-China bilateral relations, an overwhelming majority of the executives surveyed consider them to be "Very important" or "Important." Only 11% of the executives express indifference or do not attach any importance to this issue.

During interviews, many executives emphasised the absolute importance of maintaining smooth bilateral relations at institutional level.

They stressed the need to facilitate visits of authorities in both directions and include business delegations as part of these exchanges. This viewpoint is particularly prevalent among Chinese state-owned companies.

These findings highlight the significance of robust institutional bilateral relations for Chinese companies. They value the promotion of dialogue and cooperation between governments to foster a conducive environment for investment and business activities. Maintaining positive relations and encouraging engagement at institutional level is considered essential by Chinese companies operating in Spain.

Rating of bilateral relations at institutional level



Javier Lamas
CEO, Aldesa Group
Sector: Infrastructure

> **"When arriving in an unfamiliar foreign country with limited knowledge, ICEX reports, and staff provide essential insights and a high-quality initial overview for newcomers."**

Q: How do you assess the entry of Chinese capital into Aldesa Group for market expansion?

A: For Aldesa Group, it was a very positive step. CRCC, one of the biggest construction companies in the world, entered into our capital as an expert industrial partner. Not only can this company contribute to Aldesa with renewed financial strength, but it can also provide major synergies and opportunities to collaborate and share our know-how in different markets where, together, we have become much stronger.

Q: Are you familiar with ICEX's role in promoting direct investments and bilateral trade, both in Spain and abroad?

A: I am well acquainted with ICEX and its mission. Whenever I have worked abroad and needed information, I have always relied on ICEX's Economic and Commercial Offices. Their reports are essential when you arrive in a new country with limited knowledge, and their staff provide a high-quality initial overview for newcomers.

Q: Have you observed any cultural differences in working styles when integrating Chinese managers into Spanish teams?

A: There are definitely significant cultural differences which require each member of the new combined teams to adapt. However, in my opinion, multi-cultural diversity is always beneficial and leads to positive results. The Chinese are renowned for their long-term perspective, which can provide valuable insight and contribute to strategic planning. They are attentive listeners and carefully process and analyse information before engaging in discussions to reach conclusions. Overall, by understanding and appreciating cultural differences, you are somehow enriched as a person and as a professional. Together, we are overcoming the challenging scenarios that markets have been facing in recent years, and I can see an Aldesa that is emerging from this experience stronger than ever.

Areas related to people and infrastructure are the highest rated

The business climate ratings in Spain highlight the importance of quality of life, integration of expatriates, infrastructure, human capital, the regulatory environment, access to financing, and institutional support. Recognising these areas and making improvements where necessary is crucial to attracting and retaining foreign investment and ensuring the country's competitiveness in the medium and long term.

» "Quality of life" is highly valued by Chinese expatriates working in Spain, with an average score of 8.4 on a scale of 1 to 10. The country's security, leisure opportunities, and cultural offerings make it an attractive destination for Chinese executives seeking a high quality of life.

» "Infrastructure" is the second-best rated area, meeting the expectations of Chinese companies in Spain, with a score of 7.9. Spain's excellent network of international airports, high-speed railways, ports, and highways is essential for companies, particularly those engaged in export-oriented production.

» "Integration of expatriates" is the third highest rated area, with an average score of 7.7. The survey indicates that the integration of Chinese managers or employees into Spanish or multicultural work teams does not seem to pose significant problems, according to the opinions of the companies surveyed.

» "Logistics platforms" also receive positive ratings from the companies surveyed, with a score of 7.6. Together with "Infrastructure", "Logistics platforms" are one of Spain's strengths, which explains the high percentage of companies surveyed in the transport and logistics sector.

» The area of "Human capital" is important to the executives surveyed and is among the highest-rated areas. The "Availability and quality of talent" receives an average score of 7.4. Attracting and retaining talent has become a challenge for companies, emphasising the need to enhance workforce capability and attract top talent.

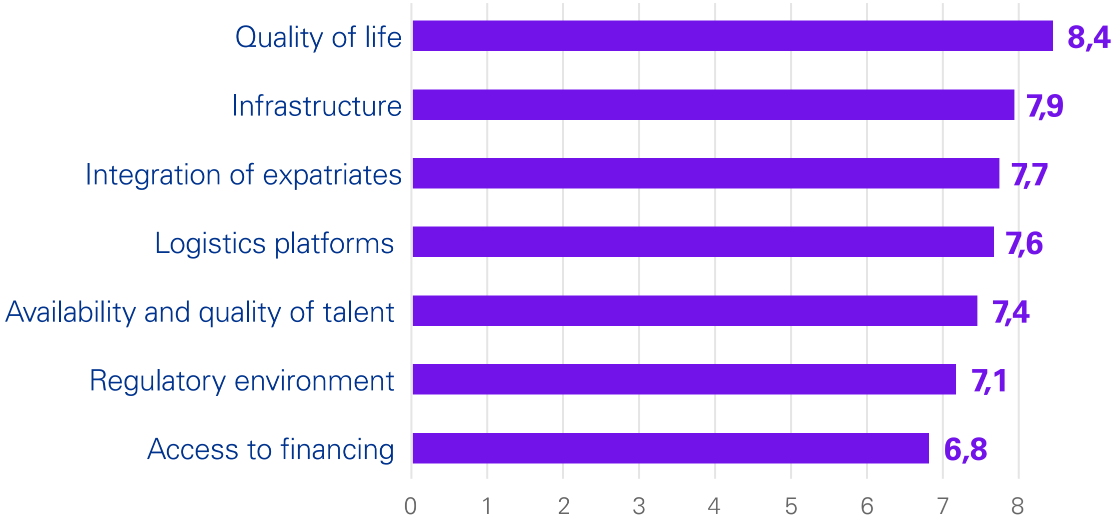
» The "Regulatory environment" is rated at an average of 7.1. The stability of the regulatory framework and the quality of regulations are crucial factors in attracting and retaining foreign investment, as indicated by 71% of the executives surveyed, who rate it above 7.

» "Access to financing" is a lower rated area, with an average score of 6.8. Improvements are needed, particularly in the information about public subsidies. Given the current higher Euribor economic climate in Europe, it becomes increasingly important for public entities to provide more support in terms of financing.

According to the survey results, potential for improvement is identified in the area of "Institutional support". Nonetheless, the executives interviewed generally hold a positive opinion regarding the institutional support provided by the Spanish trade administration, which includes entities such as ICEX, as well as other agencies operating under the Ministry of Industry, Trade, and Tourism. They acknowledge the positive role in facilitating trade and investment activities. These organisations are recognised for their efforts in promoting international business opportunities, providing market intelligence, facilitating networking opportunities, and helping to navigate foreign markets.

In recent years, ICEX-Invest in Spain has made efforts to provide more personalised support to Chinese investors, including the establishment of a "China Desk" in 2016 and the availability of documentation, newsletters, and a Chinese-language website.

Business climate ratings by area in Spain



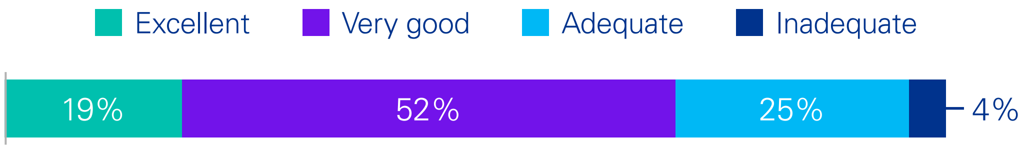
Tax incentive support, digital transformation, and ESG issues are also high on the agenda

→ **Tax incentives:** A significant number of Chinese companies established in Spain, specifically more than 30%, have reported that they apply and receive state incentives for training and employment in Spain. Additionally, 15% of the executives surveyed applied for both R&D incentives and other central government incentives specific to industrial sectors in Spain. Less well known are the other region-specific investment incentives, government incentives for innovative small and medium-sized enterprises, preferential financing from the Instituto de Crédito Oficial (ICO), internationalisation incentives, and EU aid. For that reason, Chinese companies believe that the Spanish authorities could provide more information on specific tax incentives and support programmes in order to attract more foreign investment. They seek incentives that align with their business objectives and encourage long-term commitment to the Spanish market.

→ **Innovation:** The fact that 60% of Chinese companies surveyed rated the environment for innovation development in Spain as very good could be seen as a positive sign.
A high rating from a significant number of companies suggests that these companies perceive Spain as a favourable place for innovation and business growth. It could indicate that Spain provides conducive conditions, such as supportive policies, research and development opportunities, access to talent, infrastructure, and a stable business environment.

→ **Digitalisation:** Digital transformation is crucial in today's fast-paced, technology-driven business landscape. Advances in digital technologies can offer companies numerous benefits, such as greater efficiency, improved customer experience, increased market reach, and enhanced competitiveness. Around 25% of Chinese-owned companies surveyed have rated their company's degree of progress in digital adoption as adequate. These Chinese companies perceive that they are taking some steps in digital transformation but acknowledge that there is still work to be done. It could imply that they have started adopting digital technologies and processes but have not fully optimised their digital capabilities or reached the level of digital maturity they aspire to.

Companies' degree of progress in Spain in terms of digital adaptation



Moreover, according to the survey results, 71% of Chinese company executives rate their degree of progress in Spain in terms of digital adaptation as very good or excellent. This indicates that most of these executives believe that their companies have made significant strides in terms of adopting digital technologies in the Spanish market. During the interviews, they also mentioned the development of a comprehensive digital strategy aligned with their business goals, focusing on areas such as digital marketing, e-commerce, data analytics, and process automation.

81%

of Chinese companies rate their progress in integrating sustainability and ESG into their strategic and operating model as very good.

Most Chinese multinationals have integrated sustainability and ESG into their strategic and operating model at group level. The executives surveyed rated this very positively since they are aware of the importance of their implementation in their day-to-day management. The financial services sector is one of the most demanding in terms of ESG compliance, as well as other sectors such as energy, infrastructure, healthcare, industry, and automotive, etc.

Eduardo Baviera
CEO, Clínica Baviera
Sector: Healthcare

"As a publicly listed company, our company places emphasis on equality, transparency, and ESG principles."

Q: Do you consider the business environment in Spain to be favourable at the moment? How would you assess the level of satisfaction and priority in your company's business development?

A: In general, the macroeconomic indicators are positive, although there are some uncertainties. Spain's inflation situation is better than the European average, and the healthcare sector has witnessed a positive impact post-Covid, performing better than in 2019. Since being acquired by a Chinese group, Clínica Baviera has performed well with organic growth. In recent years, the company has not only increased its business volume but also focused on improving internal operational efficiency through effective staff management, training, adoption of telemedicine technology, and ERP renewal, among other initiatives.

Q: Have you noticed any cultural differences in the working styles? What are the main strengths and difficulties you have encountered?

A: I have had the opportunity to travel to China 7-8 times, which has given me a better understanding of Chinese management practices. The knowledge I gained from Aier Eye Hospital Group has positively influenced our company. Being part of the Aier Group, we share similarities in corporate culture and experience low employee turnover. However, one challenge we face is that the decision-making process may be less structured in China, with a tendency to prioritise immediate actions. Therefore, having a robust reporting system in place is crucial for both our organisation and the parent company, especially considering that Clínica Baviera is publicly listed, and its business model is easily understandable.

Q: In terms of sustainability, what impact does it have on Spanish companies, including yours?

A: Our company is actively engaged in socially responsible projects, such as the non-profit Ethiopia Clinic. As a listed company, Clínica Baviera places emphasis on equality, transparency, and ESG principles. Our company has a minimal carbon footprint, as we minimise the use of disposable items and prioritise sustainable practices.

ESG and sustainability areas on which Chinese companies in Spain have placed the greatest focus

58% Energy efficiency

58% Health and safety

33% Corporate governance system

28% Responsible supply chain

23% Gender equality and diversity

21% Training

19% Circular economy

15% Waste management

11% Support for vulnerable groups and social assistance

6% Remuneration

Notably, when executives are asked which ESG or sustainability area will have the greatest impact on their corporate agendas, more than half highlight energy efficiency as well as health and safety. The latter option has the highest response rate, indicating that business leaders are aware that social responsibility should generate synergies for both the financial performance of the company and the well-being of employees.

The success of any ESG strategy largely depends on the commitment of all employees to the company's purpose and objectives in this area. In fact, integrating ESG factors into the corporate governance system and responsible supply chain is also considered important by a third of the executives surveyed. However, waste management, support for vulnerable groups and social assistance and renumeration are seen as less advanced by the executives surveyed. This indicates that companies will soon be working on such ESG drivers for their organisations.

Lan Cheng
HR Director EMEA Trina Tracker
Sector: Renewable Energy

> **Bridging cultural differences plays a crucial role in the management and strategy of a Chinese multinational company in Spain.**

Q: What is Trina Group's business strategy in Spain following the acquisition of a local Spanish entity? How is the business environment affecting day-to-day operations?

A: Trina Group is an international company that operates in the solar industry, specialising in solar panels, system projects, mounting systems, and energy storage. In Spain, the company primarily focuses on the distribution of solar panels, trackers, mounting systems, and projects. In 2020, Trina Solar acquired Nclave, a company renowned for its expertise in mounting systems. Over the past few years, the Spanish subsidiary of Trina Group has experienced remarkable sales of solar panels, while Trina Tracker, specifically the mounting system division under Nclave, is implementing a growth strategy and making the necessary adjustments to further expand its market presence. Moreover, Spain offers a promising market size for Trina Group, supported by the strong energy strategy promoted by the European Union. This presents a favourable business environment for the company's operations in the country. By leveraging digital transformation, the company has also enhanced operational efficiency, driving sustainable growth in Europe and Latin America.

Q: Working in a multicultural team that includes both Chinese and Spanish executives can be challenging. As HR director, have you perceived any cultural differences in the way people work?

A: Bridging cultural differences plays a crucial role in the management and strategy of a Chinese multinational company in Spain. Chinese culture values indirect communication and hierarchical structures, with top-down decision-making from the headquarters. In contrast, Spanish and other western cultures often prioritise consultation, collaboration, and consensus building among team members when seeking solutions to problems. Balancing these different approaches is key to maintaining high levels of employee engagement and ensuring that local perspectives are considered when making decisions. By incorporating specific training and similar considerations into Trina Group's strategy, our company has enhanced communication and fostered teamwork, ultimately leading to long-term success.

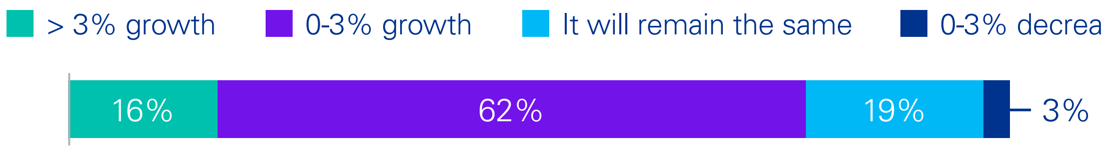
03

Economic, sectorial and business perspective

Spain has a diverse and resilient economy. It is the fourth largest economy in the Eurozone, and it offers stability, favourable economic growth, and a competitive business environment. The country has reinforced its position to attract foreign investment, improve competitiveness, and promote entrepreneurship. Various sectors in Spain present attractive opportunities for Chinese-owned companies. Key sectors include infrastructure, renewable energy, tourism and hospitality, as well as manufacturing and automotive. In this section, respondents' forecasts regarding the Spanish economy are quite consistent with their expectations for the current and future performance of their sectors.

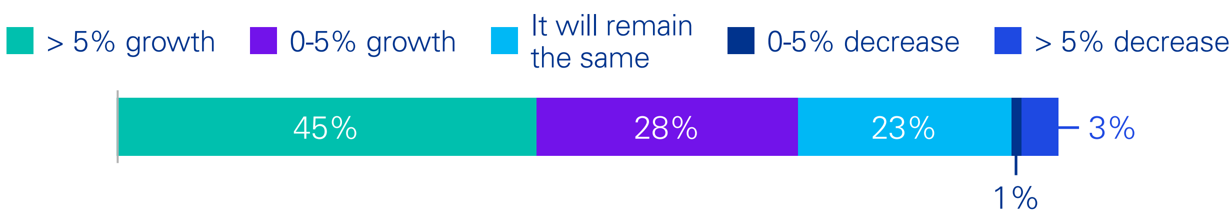
More than three out of four respondents (78%) state that their expectations for economic growth in Spain over the next 12 months are positive. More than 90% of the executives surveyed consider that conditions in the sector in which their company operates in Spain will be the same as they are now, or better or much better over the next 12 months. This optimism extends to their forecasts for revenue, investment performance, and employment, although they are more cautious than in the previous case due to the current climate of uncertainty.

Expected economic growth in Spain over the next 12 months

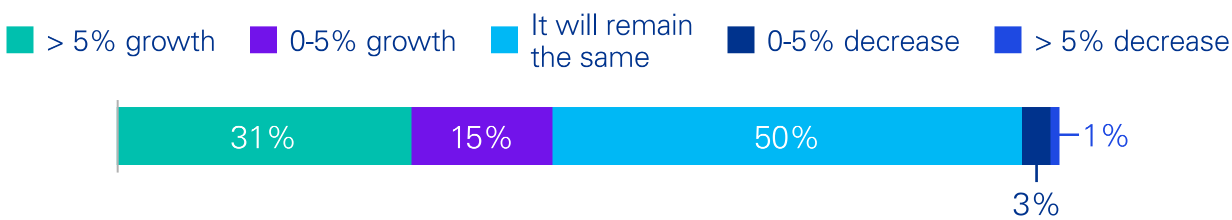


Expectations regarding sector conditions in Spain over the next 12 months

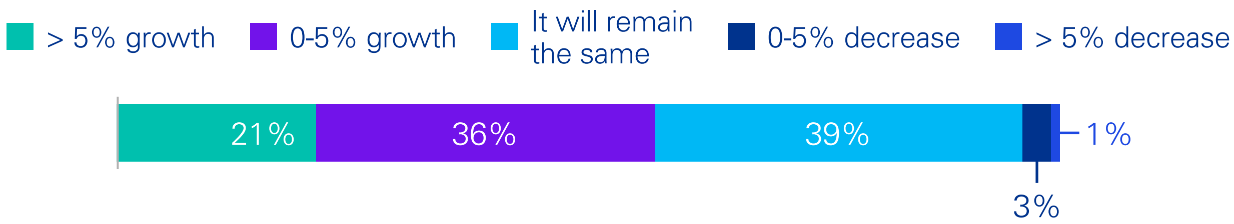
Expected change in turnover of Chinese companies in Spain in 2023



Expected change in investment by Chinese companies in Spain in 2023



Expected changes in your company's workforce in Spain in 2023

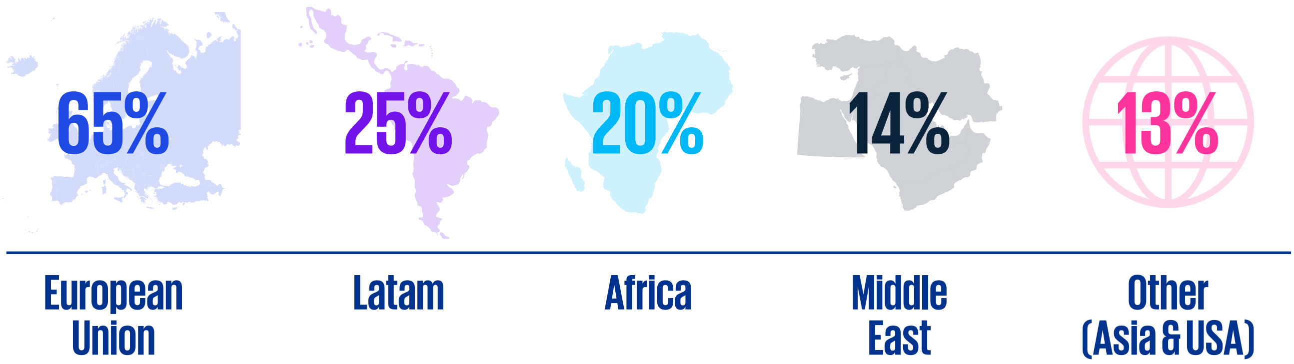


59% of Chinese companies expect their international presence to grow in terms of investment over the next 12 months, which indicates a positive outlook for their expansion and investment plans. This suggests that most Chinese companies operating in Spain are planning to increase their investment and expand their international presence within the next year.

Expanding their international presence can include activities such as opening new branches, increasing production capacity, entering new markets, or investing in research and development. This level of investment indicates that these companies see growth opportunities, market potential, and a favourable business climate in Spain.

On the other hand, almost 50% of Chinese companies expect their international presence to evolve positively in terms of exports over the next 12 months. This could mean stability and confidence in their existing operations and the potential opportunity to explore new markets.

Chinese companies plan to increase their international presence over the next 12 months



Shuli Shen
General Manager, SQ Insertec Europe
Sector: Foundry material

"We are wholeheartedly committed to implementing sustainable practices and actively contributing to Spain's ESG goals."

Q: As the general manager of a joint venture representing the Chinese shareholder, are you satisfied with the general business environment in Spain? How would you assess the overall situation of your company since its establishment in 2017?

A: The business environment in Spain is favourable and characterised by a people-oriented approach. Spanish culture is known for its openness and friendliness. If a company operates within the legal framework and complies with local regulations, there are ample opportunities for organic growth. Our joint venture with Insertec was established in the second half of 2017, and the factory began producing foundry materials in 2019. Since then, our business activities have experienced rapid growth. Establishing a production base in Spain was a crucial step in SQ Group's internationalisation strategy. Thanks to our valued partner, the establishment of localised production has greatly enhanced our connections and collaborations with customers. Moreover, we have strategic plans to invest in a new resin production plant, further consolidating our presence in the European market. Resin is one of our flagship products, and one in which we have been recognised for our technological advances and impressive production capacity. We are highly motivated to maintain our strong performance in Spain and strive to become a leading company in the region.

Q: How do you assess technological innovation and ESG in Spain? What is your approach to these issues?

A: Spain has demonstrated commendable technological innovation and a strong commitment to ESG principles. As a leading biomass refining company, SQ Group has played a key role in driving sustainable progress in Spain. Through our "SQ Method," which uses agricultural crop straw, we have achieved remarkable advances in green technology. This environmentally-friendly approach maximises the efficient use of straw, resulting in the production of a wide range of high-quality products. Furthermore, our technology generates biochar, a valuable material with applications as an anode (negative electrode) in lithium batteries. At SQ Group, our approach to sustainability revolves around leveraging green technologies, promoting efficient resource use, and contributing to the development of an environmentally-friendly industry. We are wholeheartedly committed to implementing sustainable practices and actively contributing to Spain's ESG goals.

Overall, many Chinese companies are planning to build up their international presence by increasing their investment and trade in the European Union, Latin America, and Africa, evidencing their confidence in the business growth they are pursuing.

73%

of respondents highlight continuous improvement in their company's operations

To achieve continuous improvement in their operations, Chinese companies in Spain can implement several strategies and practices. Some of the approaches they can consider include automation technologies, data analytics, training and development, employee feedback and engagement, and cross-functional collaboration.

Approximately 54% of respondents consider digital transformation to be crucial for their businesses in Spain over the next twelve months, recognising the need to leverage technology to improve efficiency and competitiveness. Alliances, joint ventures, or other types of agreements are the third-ranked factor to improve business performance. Some 36% of respondents believe that forming strategic alliances or partnerships can enhance their business performance in the Spanish market.

Due to the recent rise in the Euribor in the financial market, around 28% of respondents from Chinese companies identify bank financing or other soft financial instruments as significant for obtaining additional liquidity to support their operations and growth in Spain.

Furthermore, 24% of companies surveyed prioritise enhancement of their compliance practices to ensure adherence to regulations and ethical business standards. At the same time, ESG considerations are recognised by 21% of respondents as important factors in their business strategies in the near future, reflecting their commitment to sustainable practices.

Luis Villarroya
Chairman, Eptisa
Sector: Engineering

"In the infrastructure sector, the Spanish government has excelled by complying with European regulations that prioritise quality over price."

Q: Regarding bilateral institutional relations between China and Spain, do you consider them a relevant factor for developing your business in Spain?

A: In China, institutions play a vital role in daily life, and maintaining deep and meaningful bilateral institutional relations is crucial. If the Spanish side expresses its commitment to these relations, the Chinese side will always respond positively. Furthermore, trips undertaken by Spanish officials to China and vice versa are of immense importance, having been assessed as being of the utmost utility.

Q: How do you assess the integration of Chinese managers into the Spanish team? Have you noticed any cultural differences in the way they work?

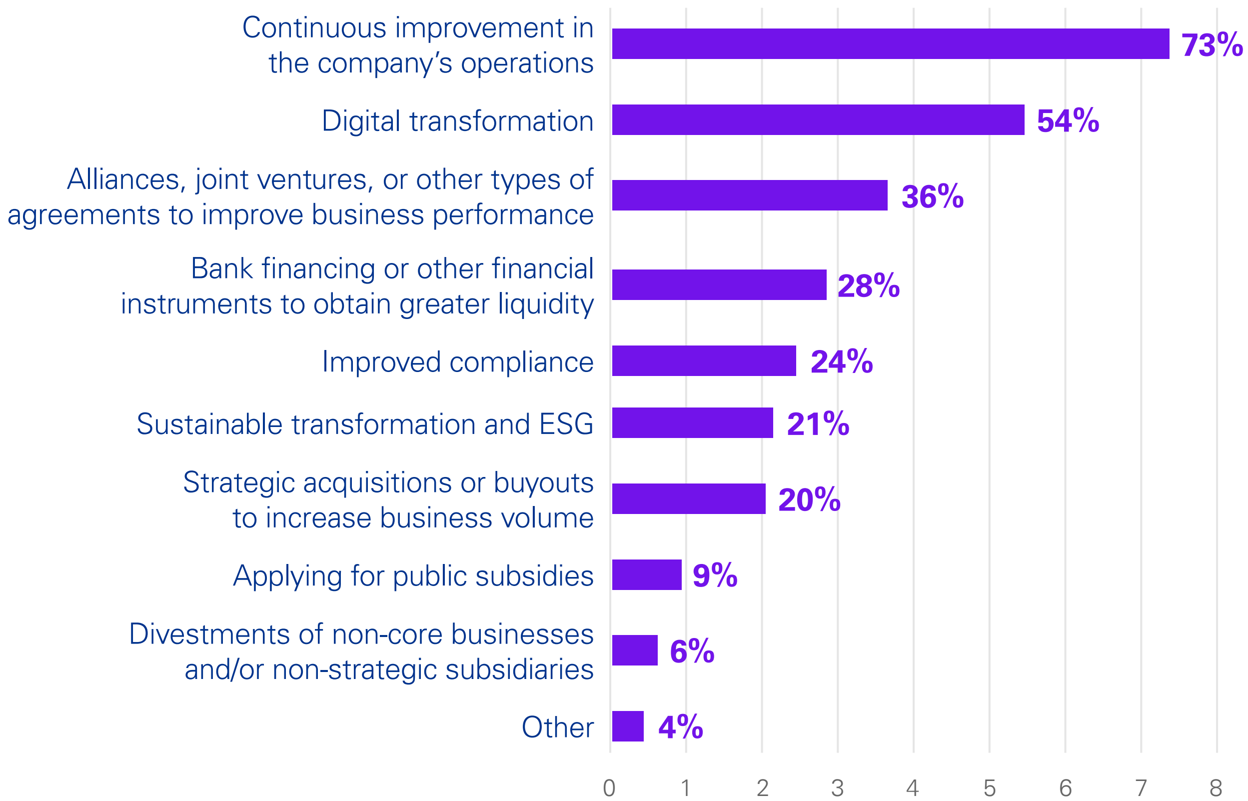
A: In general, Chinese managers value the quality of life in Spain highly and feel at home here. They appreciate the clean water and air, as well as the proximity to other European cultures. Interestingly, there is remarkable affinity between the Chinese and Spanish ways of life. In fact, during working dinners, there seem to be more similarities between Chinese and Spanish people than between Spaniards and Germans. At Eptisa, we embrace multiculturalism as part of our make-up, so we have not encountered any integration problems.

Q: What are your expectations for the Spanish economy, and what is your company's outlook for the coming year in terms of investments?

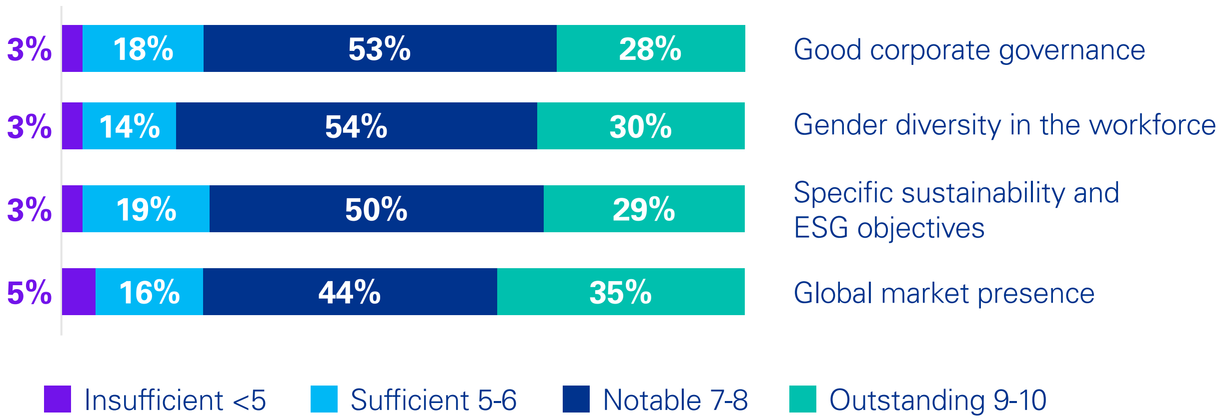
A: Spain represents a significant portion, between 15% and 20%, of our company's revenues, so the Spanish economy is very important to us. In the infrastructure sector, the Spanish government has done an excellent job by complying with European regulations that prioritise quality over price.

As regards investments, our focus is on human capital. There is currently a global crisis brought about by the scarcity of engineers, which is why Eptisa aims to invest heavily in attracting and retaining talent. Specifically, we plan to allocate substantial resources to attracting experts on energy who have a unique perspective on decarbonisation and sustainability.

Important measures that the companies surveyed are considering over the next 12 months



Rating of the handling of the following issues on a scale of 0 to 10 over the next 12 months



Final words

Overall, both the questionnaire responses and the personal interviews conducted, clearly indicate that companies regard Spain as a favourable location for their investments and maintain a positive outlook for their business in the medium term. Despite a challenging global context, companies harbour expectations of growth and are optimistic about their operations in Spain.

01

Despite an inflationary environment and restrictive monetary policy, Chinese companies established in Spain have a positive view of economic growth there compared to the rest of Europe. Their business strategies pursue organic growth in the domestic market and international expansion, especially within the European Union.

04

The areas most highly rated by the executives surveyed are "Quality of life" and "Integration of expatriates", two issues related to the particular idiosyncrasies of Spaniards. "Infrastructure", "Logistics platforms", "Human capital" and "Regulatory framework" also receive good ratings. Therefore, they could be considered strengths of our country.

05

Chinese companies prioritise continuous improvement of operations as the foremost aspect for conducting their business in Spain over the next twelve months. This underscores their emphasis on enhancing operational efficiency, productivity, and overall performance to achieve success in the Spanish market.

02

The stability and quality of the "regulatory environment" are highly appreciated by Chinese investors and considered by some interviewees to be superior to those of other European countries. On the other hand, "institutional support" is still an area where there is ample room for improvement. For this purpose, central and regional Spanish Investment Promotion Agencies (IPAs) are increasingly offering personalized support to Chinese investors.

03

Bilateral institutional relations play a pivotal role for executives in encouraging Chinese investment in Spain. Undoubtedly, maintaining open and cordial institutional relations between China and Spain will enhance bilateral trade and attract more Chinese investment to Spain.

06

The executives interviewed are increasingly engaged in nurturing their professionals to achieve sustainable development. By focusing on shared interests and values rather than differences, executives from both Spanish and Chinese backgrounds highlight the importance of effective cross-cultural management and talent retention in driving business success.

07

The environment favours the promotion of digital transformation, innovation, and ESG development and implementation for Chinese companies in Spain. Executives also positively rate their companies' progress in integrating digital adoption and ESG considerations into their strategic and operating models.

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