

Foreign Direct Investment of Spanish Companies

EFFECTS ON HOME AND HOST COUNTRIES: FIVE CASE
STUDIES IN DEVELOPING AND EMERGING ECONOMIES
[Abridged Version]



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Title of study:

Foreign Direct Investment of Spanish Companies. Effects on home and host countries: five case studies in developing and emerging economies.

(This is an abridged version of the original study published in Spanish with the title: *La inversión directa de las empresas españolas en el exterior. Efectos en destino y origen: 5 casos de estudios en países y economías en desarrollo*).

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Barcelona and Madrid, April 2017

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ISBN: 978-84-697-8084-8

Depósito Legal: M-34376-2017

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FOREWORD

One of the most characteristic features of the world economy since the 80s has been the progressive globalisation of industrial and productive activities, mostly through Foreign Direct Investment (FDI) operations.

Spain, a country that traditionally and in its recent past has been a net recipient of foreign investment, has not lived outside of this process and during that same period has consolidated its importance as an investor abroad, such that in 2016 it was ranked thirteenth worldwide. Especially significant is our active presence in Latin America, where we are currently the second foreign investor after the United States.

The importance of FDI growth is paramount, above all because of its growth-boosting effect in host countries, and most notably, in those with less relative development and lower capacity for domestic savings. It is an observable reality that during this relatively short period many countries and developing economies have experienced significant growth, which has also resulted in an increase in the average education level and general wellbeing. And it is also noteworthy, as noted in this paper, that FDI is equally positive for companies as well as the economy of the country in which the home market is based.

FDI contribution to economic growth in the long term is particularly intense when it takes place in the framework of a comprehensive and strategic development policy. Likewise, for FDI to generate a positive impact, it is essential to ensure compliance with the so-called 'three E's' of Sustainability (the environmental, the economy and the social equity).

Among all the relationships that this study revealed, I would like to highlight the one that links FDI and technological innovation as being key, especially because of the positive impact on productivity and the transmission of knowledge. In this sense, I would like to emphasise how in the foreign investment process, it is becoming increasingly common to search for assets based mainly on knowledge, through strategies to identify the most advanced and innovative technologies at any given time.

FDI has now become the main technology transfer path for most developing countries and economies, in which it contributes to increasing the value added of production and to increase the formation of human capital.

These technology transfer processes can be developed through a two-way channel, in which the so-called 'reverse transfer' becomes extremely important. As concluded in some of the cases shown in the study, it is common that the recipients of FDI also provide knowledge to the issuers. Thus, the positive effects that the international capital flows generates on economies and firms occur in the host market as well as in the home market.

Likewise, I would also like to point out that all of these topics, which are incorporated as a conclusion in the final sections of the present study, are largely a consequence of a determined process of business internationalisation. In this context, the role of the internationalisation support instruments of the State Secretariat for Commerce, and especially COFIDES' financial leadership since its establishment, supporting the foreign investment activity of Spanish companies, is undisputable. It contributes to the growth of the Spanish economy as a whole and promotes the social, environmental and economic development of the host countries.

An increasing number of more intense global investment flows are undoubtedly contributing to growth and job generation. Today more than ever, in an environment in which protectionist winds blow from some of the bastions of commercial freedom, we must ratify our defence of free trade as an instrument to increase wealth and improve people's well-being.

I would like to conclude with my sincere thanks to all those who have dedicated their time and effort, both directly and indirectly, to work so diligently on this study.

Marisa Poncela
Secretary of State for Commerce

PREFACE

We are pleased to present the Report *“Foreign Direct Investment of Spanish Companies. Effects on home and host countries: five case studies in developing and emerging economies”*, drawn up by an ESADE research team in collaboration with COFIDES and co-sponsored by the General Council of the Professional Associations of Economists of Spain.

In the last three decades there has been a significant shift in the perception of developing country governments regarding foreign direct investment (FDI). Today, the large majority of governments consider that FDI can play a fundamental role in economic development, because of its positive effect on the balance of payments as well as in terms of job creation, productivity improvement, competitiveness of domestic businesses and increased access to international markets. Moreover, FDI effects occur not just in host countries but also in the home country. Hence, most of these governments have integrated FDI from a dual perspective, firstly as part of their economic development strategy, by freeing up foreign investment and competing to attract FDI projects; and secondly, linking FDI with policies aimed at promoting internal growth and strengthening domestic businesses and industrial sectors. Most FDI projects contribute capital and technology to the host country, however the relationship between FDI and development is neither linear nor automatic, since the impact of FDI depends not only on its volume and nature, but also on the absorptive capacity of the local firms and the host country.

In this sense, it is interesting to note that, after a greater success than expected, the Millennium Development Goals (MDGs) have led in 2016 to the Sustainable Development Goals (SDG), which runs to 2030. SDGs adopt an explicitly multi-dimensional conception of development that is people-centred and integrates the preservation and regeneration of the environment, while promoting the prosperity of nations. The new international development agenda is much more ambitious than the previous one, and the international community has recognised that Official Development Assistance (ODA) is clearly insufficient to finance its goals. In this context, the private sector is expected to play a leading role. Think that in 2015, FDI flows to developing economies were six times larger than ODA worldwide. The challenge, therefore, is to mobilise and channel that FDI, or at least a significant part of it, to the SDGs in order to promote inclusive and sustainable growth. In this context, cooperation agreements are being developed between public and private partners that are giving rise to new financing modalities for development. These include the role of the Development Finance Institutions (DFIs), including COFIDES, as catalysts for business investment in developing countries, as well as for the generation of positive effects on the business ecosystem and the economy of the home country.

The study that we are now presenting is one of the first in Spain to evaluate the impact of a number of FDI projects in developing countries, using the contribution they make to the SDGs

as a reference framework. Likewise, and also as a novel feature, the report explores the mechanisms and contextual factors that contribute to positive impact, both for host and home country. To this end, several investment projects in different developing countries, promoted by Spanish companies from different sectors and company sizes, have been analysed. These projects have involved COFIDES co-financing given its extensive experience, specialisation and leadership in this area at a national level. COFIDES has established precautions from an economic, social and environmental point of view, to ensure compliance with internationally accepted investment standards.

Finally, we would like to thank the generous cooperation of the companies that took part in the study, and which underpins the present report. The study itself is an example of how the cooperation between different partners - companies, public institutions and university institutions - allowed the creation of "shared value", in our case the generation of relevant knowledge, which benefits all the parties involved as well as society at large, in line with the mission and the values that guide the actions of COFIDES, ESADE and the General Council of the Professional Associations of Economists of Spain.

Salvador Marín
COFIDES Chairman and CEO

Eugenia Bieto
ESADE Managing Director

Valentín Pich
Chairman of the
General Council of the
Professional Associations
of Economists of Spain

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STUDY OBJECTIVES

The purpose of this study is to raise awareness of the fact that Spanish companies through their direct investments in developing countries can contribute significantly to the sustainable development of host countries and in doing so benefit themselves and its home country.

Based on the drawing up of a series of real case studies and their analysis, the study attempts to achieve this purpose through three specific goals:

- First. To identify the different contributions of the studied FDI projects to the sustainable development of the host countries, as well as the effects they have on the project companies¹ and their country of origin.
- Second. Identify the most relevant actors, processes and contextual factors that explain the nature and importance of the development contributions identified in the different case studies.
- Third. Based on the findings of the study, provide recommendations aimed at Spanish companies planning or carrying out direct investments in developing countries, on how to adopt pro-development approaches in their business strategies.

RESEARCH METHODOLOGY

This study is based on the analysis of multiple research case studies, a qualitative methodology, exploratory in nature, which is considered appropriate to address issues relating to the 'how' and 'why' of the studied phenomena.

The methodology founded on research cases is based on four pillars: the selection of the sample with theoretical criteria, triangulation of information sources, pattern-matching of the relationships between variables that emerge from individual cases and the analytical generalisation of the observed patterns (Pauwels & Matthyssens, 2004; Eisenhardt & Graebner, 2007).

Regarding the sample, the criteria proposed by the research team for the selection of different FDI projects to be considered in the study were as follows:

- That investment projects are being carried out in developing countries and emerging economies in different geographic regions worldwide.²
- That the companies promoting the projects develop their activity in different economic sectors and are of different sizes.

1 In the text we use the terms "promoter", "promoting company" or "investing company" indistinctly to refer to the Spanish company that undertakes one of the FDI projects analyzed.

2 The IMF "emerging markets and developing economies" classification (2015) has been used for the project selection.

- That the investment projects respond to different FDI motivations.
- That the investment projects include different entry modes (greenfield or brownfield) and different degrees of ownership and control.

Based on these criteria, COFIDES selected seven FDI projects and, after contrasting them with the research team, the promoting companies were invited to participate in the study. Of those five companies participated in the study. Table 1 presents the main characteristics of the FDI projects studied and the project companies. At the request of COFIDES, in the present report the companies participating in the study are mentioned by a letter, and not by their corporate name, for reasons of confidentiality.

As shown in Table 1, selected FDI projects have been carried out in different countries of Latin America, Asia and Eastern Europe. In all cases they were "upper-middle income" economies as defined by the World Bank at the time the investment was made, with three of the projects being carried out in regions with significant informal economy problems (Case A), unemployment (case D), or backwardness and poverty (case E).³

Table 1. Characteristics of selected FDI projects, promoting companies and host countries

Characteristics	Company A	Company B	Company C	Company D	Company E
FDI PROJECT					
Brief description of the project	Acquisition of an asparagus cultivation company	Acquisition of white marble quarry company	Construction of a cold and hot stamping plant	Acquisition of an indoor lighting systems manufacturer	Toll motorway concession + construction of new section
Destination country	Peru	Mexico	China	Poland	Mexico
Investment motivation	Search for more efficient location to supply Spanish market	Search for natural resources to access the US market	Search for access to local market following automobile multinationals	Search for access to local market (also access to hospital lighting know-how)	Search for access to local public works market through PPP agreements *
Entry mode and control grade	Acquisition of existing company (<i>brownfield</i>)	Acquisition of existing company (<i>brownfield</i>)	New company (<i>greenfield</i>)	Acquisition of existing company (<i>brownfield</i>)	At the beginning partnership, then 100% control (hybrid greenfield and brownfield)
Number of years in operation (of the subsidiary)	3 years	7 years	3 years	6 years	7 years
Subsidiary size (number of employees at present)	1,300	70	400	180	193 (in the whole of the concession)

3 The World Bank has considered China an upper-middle income economy since 2012, Mexico since 1992, Peru since 2010, and Poland since 1996 till 2011 when it was considered a high-income economy. As a reference, for the year 2016, upper-middle income countries are those with a GNI per capita between US \$4,126 and \$12,735. Source: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

Characteristics	Company A	Company B	Company C	Company D	Company E
<u>PROMOTING COMPANY</u> Activity	Vegetal canned products	Production of technical calcium carbonates	Automotive metal components	Manufacture of interior lighting systems	Civil Infrastructure of works and construction
Size (no. of employees)	Between 1,000 and 5,000	Between 250 and 500	More than 10,000	Between 500 and 1,000	Between 1,000 and 5,000
Age of the Company (when business line started)	More than 50 years	More than 50 years	More than 50 years (between 10 and 24 years ago)	More than 50 years	Between 25 & 50 years (less than 10 years ago)
Ownership	Family-owned	Family-owned	Family-owned	Family-owned	Family-owned
Previous experience in FDI projects	Prior similar project in China	Limited to foreign sales subsidiaries	Very large, presence in many countries	Limited to foreign sales subsidiaries	No previous experience
<u>HOST COUNTRY</u> Relevant characteristics of the country	PERU Economy dependent on commodity exports (minerals and metals). Free trade agreement with the European Union (no import tariffs for agricultural products)	MEXICO Economy closely linked to the US, with industrial sector increasing weight since the entry into force of NAFTA** in 2004	CHINA Emerging economy with high growth Automotive sector considered strategic. First car producer in the world since 2009	POLAND Joined the European Union in 2004, which boosted its economy. Strong weight of the industry, although GDP per capita well below EU average	MEXICO Economy closely linked to the US, with increasing weight of the industrial sector. Important federal road construction program
Relevant characteristics of the region of investment	Optimum conditions for growing asparagus Most jobs are in the informal sector of the economy	High purity marble quarries Geographical proximity to Texas market, United States	Important industrial centre. Strong support from the central government for its revitalisation Very dynamic labour market	High unemployment area	One of the most underdeveloped regions (high poverty and illiteracy rates) The indigenous population represents 26% of the total

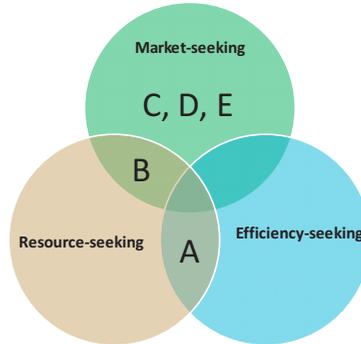
* PPP = Public-Private Partnership

** NAFTA = North American Free Trade Agreement

Source: Authors' own elaboration

These projects involve investments in different activity sectors (agribusiness, extractive industries, components and product manufacturers whose clients are other companies or organisations, and infrastructure concessions), responding to different motivations (see Figure 1). Different entry modes have been employed (greenfield and full acquisition of companies that become wholly-owned subsidiaries as well as consortiums with local partners), and in all cases the subsidiary in the country has been in operation for at least three years, indicating that these are projects in an advanced consolidation stage or already consolidated.

As for the promoting companies, these are consolidated companies in their sector and with a wide business history (more than 40 years existence), owned and family controlled, that are privately held, of very different sizes (from something of more than 250 employees to more than 40,000) and with very different previous experience in FDI projects.

Figure 1. Motivations of studied FDI projects

Source: Authors' own elaboration

With regard to the information sources, a series of semi-structured interviews with company managers were carried out for each of the study cases. Prior to the interviews, the research team had a description of each FDI project provided by COFIDES and the corporate website of the sponsoring company was checked and, if applicable, also the one for the subsidiary linked to the FDI project, as well as information on the sponsoring company contained in the SABI database. Subsequent to the interviews, press releases related to the project were searched through the Factiva database and Internet, along with statistical data related to the development level of the country receiving the investment. The different sources used have allowed the contrast and validation of the data incorporated in the case studies.

Regarding the field research, for each case study, a first semi-structured interview was requested to one or more managers of the head office having in-depth knowledge of the FDI project, and a second subsequent interview with one of the managers of the subsidiary in question, either the managing director or the financial director. This way, the complementary perspectives of the parent company and the subsidiary on the project were obtained. In total, 10 managers were interviewed between September and November 2015.

Table 2. Respondents interviewed in the companies participating in the study

Company	Respondents interviewed
A	<ul style="list-style-type: none"> Managing Director of the subsidiary in Peru
B	<ul style="list-style-type: none"> President and Chairman Chief Executive Officer Managing Director of the subsidiary in Mexico
C	<ul style="list-style-type: none"> A manager of the Corporate Social Responsibility Department A technician from the Corporate Development Department Chief Financial Officer, Asia Division
D	<ul style="list-style-type: none"> Corporate Finance Director Finance Director of the subsidiary in Poland
E	<ul style="list-style-type: none"> Director General of the Concessions Division

INDIVIDUAL CASE STUDIES

Company A - Peru (Agrifood industry)

Description of the promoting company:

Head office:	La Rioja
Year of incorporation:	1940
Status:	Third generation family business
Activity:	Manufacture and marketing of vegetal canned products (tomato, asparagus, mushroom, corn, pepper, among others).
Production plants:	(i) Five plants in Spain (Rioja, Navarra, Toledo and Cáceres), (ii) three plants in China, (iii) in August 2012 it reinforced its international production with the acquisition of a company in Peru.
Other features:	<ul style="list-style-type: none"> · Around 92% of its turnover is centred on the Spanish market and the rest comes from the export of its products to 44 countries. · The company dedicates 2% of their turnover to research projects in order to improve the quality of their products and to launch new ranges to the market.

Description of the FDI project:

International strategy:	Allow the Company to reconfigure its supply chain internationally, with the aim of maintaining its competitiveness in quality and costs in its main market, the Spanish one.
Investment goal:	Benefit from the great agricultural potential of Peru to supply mainly the Spanish market, given the high crop productivity, timelines and logistics costs which are very similar to those of producing in China, and the absence of import tariffs by the EU.
Project:	In August 2012, the acquisition of 100% of a company located in Trujillo (Peru), northwest of Lima, a privileged geographic location for the asparagus crop.
Risk factors:	<ul style="list-style-type: none"> · Citizen insecurity in the area. · Lack of legal security in the land acquisition, given the non-existence of similar institutions to the land registry or the Registry of Property in Spain.

Organisational characteristics of the subsidiary:

Origins:	The acquired company was founded in 1999 by a group of investors with experience in agribusiness projects.
Business model of the acquired company:	<p>Focused on the commercialisation of fresh products, this compels them to deal with the tough requirements of the fresh food market:</p> <ul style="list-style-type: none"> (i) Production management constrained to the high seasonality demand (crops mainly oriented to the Christmas period and Easter Week, times of the year with the greatest demand). (ii) Most of the employment offered is temporary, with high turnover of staff (about 30% of the workers of one season did not return to work for the subsidiary the next season). (iii) Price fluctuation of the fresh product (commodity) according to the variation of factors that affected its demand.
Strategic reorientation of subsidiary activity:	<p>Company A completely modified the strategy and business model of the subsidiary, prioritising canned products over fresh ones.</p> <p>The subsidiary went from working for 35 customers to only 7-8 large customers, allowing longer runs and much better production planning, with consequent productivity gains.</p>
Strategic reorientation results:	<ul style="list-style-type: none"> (i) Stop seasonally producing a perishable product and continue to produce a durable product throughout the year, whose prices are much more stable, as well as having a significant reduction in the finished product inventory levels (and therefore of investment in current assets) to be able to better adjust production to the demand throughout the year. (ii) Significant transformation in the employment offered that has gone from being temporary during certain months of the year to being stable employment throughout the year, which has translated into a greater commitment by the workers to the company, meaning a significant reduction in staff turnover rates. Currently, the subsidiary has a workforce of 1,300 employees (45% women).

Knowledge-transfer process from the head office to the subsidiary:

<p>Mechanisms established to facilitate the know-how transfer:</p>	<p>(i) Continuous cooperation of the subsidiary with the R & D department (implementation of advanced canning technology, optimisation and improvement of production processes, introduction of new crop varieties) and with the corporate commercial area (key clients management) both located in the parent company in Spain. (ii) Together with the parent company R & D unit, new varieties of seeds that may be suitable for the cultivation conditions in Peru are constantly being investigated and tested. (iii) Send expatriate staff, from the director of the subsidiary to the Spanish technicians who regularly stay for short periods of time in the subsidiary. (iv) To have implemented quality standards, safety and environmental management systems (among others, IFS, ISO 22000, ISO 9001, ISO 14001, OSHAS 18001). These regulations enforce the internal procedures and good practices developed by Company A to be formalised and documented, thus facilitating their transfer.</p>
<p>Mechanisms and factors to facilitate knowledge absorption:</p>	<p>(i) At the time of the acquisition, the local management team consisted of professionals with adequate qualifications and a high capacity to assimilate the technology and management practices of Company A, a team that the company decided to keep. (ii) The implemented business model managed to practically eliminate the rotation of personnel and raise worker motivation. This has made it possible to keep the employees who have been trained and to increase the capacity to absorb new knowledge (processes, procedures, good practices) from the parent company. (iii) The technicians of the different areas of the subsidiary have carried out training trips to Company A's productive facilities in Spain. (iv) Previous experience of the expatriate director with the subsidiaries in China. (v) Facility that involves having the same language.</p>

FDI project impact on the host country development:

<p>From a macroeconomic perspective:</p>	
<p>Employment:</p>	<p>Key creation of stable employment, part of which is qualified, in the formal sector of the economy.</p>
<p>Balance of trade:</p>	<p>The Peruvian economy has seen its trade balance improved due to increased exports.</p>
<p>Tax revenues:</p>	<p>Public administrations have seen the tax revenue arising from the greater productive activity of the subsidiary</p>
<p>Technology transfer:</p>	<p>Effective technology transfer through the introduction of new varieties and agricultural processes improvement in the region, as well as the introduction of leading canning technology, not previously available in Peru; all of which translates into a significant increase in value added and productivity per employee.</p>
<p>From the different stakeholders' perspective:</p>	
<p>Employees:</p>	<p>(i) Change in the type of employment offered, from temporary to permanent in the formal sector of the economy, which allows stability in the income of a large group of employees throughout the year, thus resulting in a higher ability to plan their consumption expenses as well as access to credit. (ii) High percentage of female employment: 45% of the total. (iii) Subsidiary certifications: IMO Social & Fair Trade for Social Responsibility and Fair Trade in Agriculture, which ensure good working conditions for its employees and respect for the fundamental labour rights championed by the International Labour Organisation. (iv) Employment stability goes with the investment in periodic training that the subsidiary conducts and the possibilities of internal promotion being a company with clear prospects for growth, contributing to a greater motivation and commitment to the company. (v) Policy adopted to combat high levels of absence, common in the area, through in-kind incentives (people who have not unjustifiably missed their work during the previous month receive a batch of varied products purchased by the company), which has managed to reduce, by more than half the previous levels of absenteeism.</p>
<p>Local suppliers:</p>	<p>(i) The most relevant impact in terms of knowledge spillover occurs on local packaging suppliers who have had to respond to the most demanding technical standards in terms of formats and labelling (e.g. in the use of certain varnishes in the labels). (ii) In the case of agricultural machinery, some equipment has been designed and manufactured by local companies for the subsidiary. (iii) Since the subsidiary technicians and the R & D department are constantly experimenting with new seed varieties (for better performance, quality and genetic aptitude against pestilence), the subsidiary seed suppliers must respond to their demands either through local production or import. (iv) Regarding the machinery for the industrial preserves processing comes mostly from Spanish manufacturers, although some of them have technical service in Peru.</p>

Local Competitors:	<p>(i) The market share held by the subsidiary, due to the decrease in its production of fresh products, has been distributed among the 3-4 largest producers in the sector.</p> <p>(ii) The introduction of new agricultural varieties by the subsidiary could trigger an imitation effect on some local producers.</p>
Social responsibility:	<p>Company A's social responsibility policy is not limited to its employees and includes local communities close to farming areas and factories.</p> <p>(i) Workers and families from the subsidiary: direct primary health care, summer school for children, and gifts for employees and families, especially to the minors on important festivities. Festivals and funfairs are also organised for employees and their friends that are very much appreciated, because such events are not really organised in their place of residence.</p> <p>(ii) Local universities: Subsidiary collaboration with Antenor Orrego (UPAO) Private University, organising multiple visits and cooperating in student internships.</p> <p>(iii) Local public authorities as well as local NGOs: collaboration in improving social wellbeing and citizen security.</p> <p>(iv) International standards: the subsidiary as a company responsible to society, applies international standards in its processes and practices relating to quality management and food safety as well as environmental preservation (Global GAP certificates, IFS , BASC, Lloyd's RQA, and BRC Food Safety).</p> <p>(v) Others: the subsidiary has one of the largest dairy cow stables in Peru, with more than 2,000 cattle. The animals are fed with asparagus foliage and the fields are fertilized with the compost of the organic matter produced by the animals, following the natural cycle.</p>

FDI project impact in the home country (Spain):

Competitive position:	The FDI project strengthens the competitive position of Company A in its key market, the Spanish one, by ensuring the quality supply of canned products and lower total (including logistics) costs than those of alternative locations.
Suppliers:	The Spanish manufacturers of machinery for the industrial processes required to transform fresh products into canned ones also benefit from the growth of the subsidiary.
R & D:	By facing new growing conditions in Peru, the R & D department of Company A has developed new know-how and process innovations.
Employment:	Since the relocation of canned asparagus production took place in 1998, investment in Peru has not negatively affected the employment levels in Spain (although it does have affected to operation in China) but have endowed them with greater security for the future.

Contribution to achieving the Sustainable Development Goals (SDG) by COMPANY A Subsidiary in Peru:

Sustainable Development Goals		Subsidiary contribution (specific goal to which it contributes)
Direct Contribution	SDG 1 – End poverty in all its forms everywhere	<ul style="list-style-type: none"> • Significant creation of employment in the economy formal sector (1.2) • Adequate compensation for local farmers (Fair Trade in Agriculture certification) (1.1 & 1.2)
	SDG2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture	<ul style="list-style-type: none"> • Quality and food safety management with international standards (ISO 22000 and GAP certifications, among others) (2.4)
	SDG 3 – Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> • Direct provision of primary health care to workers and their families (3.1 to 3.5)
	SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	<ul style="list-style-type: none"> • Periodic training for all employees (4.4) • Collaboration with local university (4.4) • Summer school for employees' children (4.1)
	SDG 5 – Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> • 45% of direct jobs are held by women (5.1)
	SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	<ul style="list-style-type: none"> • Remuneration and decent and safe working conditions (IMO and OHSAS certifications) (8.8)
	SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	<ul style="list-style-type: none"> • Industrialisation (increased value added of local production) (9.2) • Environmental and industrial safety (ISO 14001) (9.4) • Transfer to the leading canning technology subsidiary (9.5)
	SDG 12 – Ensure sustainable consumption and production patterns	<ul style="list-style-type: none"> • Synergies with livestock activity: recycling of organic waste (12.5)
Indirect contribution	To all SDGs	<ul style="list-style-type: none"> • Taxes and fee payment

Note: The different SDGs specific goals (the numbering of those in which the subsidiary contributes to its achievement is specified in brackets) can be found in Table 3

Source: Authors' own elaboration

Company B – Mexico (Calcium carbonates production)

Description of the promoting company:

Head office:	Barcelona province
Year of incorporation:	1958
Status:	Since its establishment, the company has been controlled by the founding family.
Activity:	Calcium carbonates production, calcite and white marble derivatives.
Production plants:	In Spain has two quarries and its corresponding industrial plants, located in Barcelona and Almería. In February 2008, Company B began its international production through the acquisition of a Mexican company in the state of Durango. The company also has a commercial subsidiary in Germany and another one in US.
Other features:	<ul style="list-style-type: none"> · About 50% of its sales come from the export of its products to seventy countries. · As a result of the continuous efforts and investments in R & D, company B has developed its own technological know-how to manufacture different qualities of Technical Calcium Carbonate (TCC). · Company B is leader in Spain and sixth largest producer of TCC in the world. The company opted for specialisation, focusing exclusively on the production of calcium carbonates and internally developing its own process technology.

Description of the FDI project:

Project:	Acquisition in February 2008 of 95% of the shares of company that owns a high-quality white marble quarry located in the municipality of Gómez Palacio (Durango state), around 800 kilometres from the US border. After the initial capital increase, Company B acquired the share of the local partner.
International strategy:	Access to the US market, the largest and most technologically advanced in the world for TCCs, and which could not access from its plants in Spain due to high logistical costs.
Investment goal:	To replicate the production model of company B (obtaining the mineral and its transformation into industrial raw material) in Mexico and to be able to compete in the US market based on the geographical proximity and its own know-how.
Project development:	<p>The proposed project has a planned production capacity 12 times greater than the one of the acquired company, to be developed in two phases:</p> <p>Phase I: Building of a new plant and adjacent storage silos to the quarry, with a production capacity of approximately 400,000 tons per year of Ground Calcium Carbonate (GCC), destined to supply Mexico local market and the market niches in the US. The new plant went into operation in mid-2014 and will reach its maximum productive capacity in 3-4 years.</p> <p>Phase II: Building of a processing plant with a production capacity of over 600,000 tons of TCCs, mainly destined for export to the US market.</p>
Local authority support:	The project has received support from the Mexican authorities, a clear indicator that it is considered a high-impact project with capacity to originate a cluster of large chemical companies that consume TCCs. Nafinsa (National Financiera), a public bank whose mission is to promote Mexico's economic development, has provided funding for Phase I through the Mining Development Trust (FIFOMI) and the National Council for Science and Technology (CONACYT) has awarded grants to Research projects.

Organisational characteristics of the subsidiary:

Origins:	The acquired company was established in 1997.
Employment:	At the time of its acquisition by Company B it had about 30 employees. It currently has 70 employees, of which 2 are expatriates (the general manager and the deputy general manager). A significant part of the new jobs created are qualified, especially in the process engineering area. 10% of the workforce is made up of women.
Parent company-subsidiary relationship:	The subsidiary enjoys a high level of operational autonomy, both in the productive and commercial fields, in line with the mandate of Phase I of the project (production is intended to supply mainly the local market), depending on the commercial subsidiary in US for exports to that market. In Phase II of the project, focused on the production of TCCs mainly destined to the North American market, the operational interdependencies with the commercial subsidiary in the US will increase and with the parent company, where the strategic R & D & I activity is placed. Another important aspect to mention is the information and control systems. The production processes of Company B are highly automated, which, together with the recent implementation of SAP system at the group level, allows the parent company to obtain real-time information on the most significant operational management parameters related to each one of its plants and subsidiaries.

Knowledge-transfer process from the head office to the subsidiary:

Technological know-how:	The competitive advantage of Company B is based on the internally developed technological know-how to produce different qualities of Calcium Carbonates, especially micronized TCCs and with chemical treatments. This requires complex and specialised industrial installations, both in the design of fully automated production processes and also in the amendments that its technicians make in the production machinery to adapt them to the different hardness of the materials and to the specifications required. The key technological knowledge has been transferred to the subsidiary of Mexico physically incorporated in the installation and the specific machinery of the industrial process.
Productive know-how:	Production process know-how was transferred to the operations staff who had no previous TCC experience.
Mechanisms to manage the transfer of knowledge:	
Coordination mechanisms:	(i) Recruitment of a Spanish manager with previous international experience from a multinational company. (ii) Send technicians in short and staggered missions to supervise the facility assembly and to train the production staff and the technicians of the quality control laboratory. (iii) Training for Mexican subsidiary technicians in the head offices during a period of 15 days.
Organisational mechanisms:	(i) The intensive use of computer systems for automated production management, allows real-time access to all production information in the Mexican subsidiary. (ii) The fact that the company has implemented quality, environmental and occupational health and safety management systems (ISO 9001, ISO 14001, EMAS and OSHAS certifications) facilitates the availability of written procedures that enable the transfer of explicit knowledge about the different processes.
Other mechanisms facilitating the transfer and absorption of knowledge:	(i) The previous knowledge on mineral treatment that the employees of the subsidiary possessed, facilitated their training and the rapid assimilation of transferred techniques and processes. (ii) To cover the newly created technical positions required in Phase I, three newly graduated engineers from the Monterrey Institute of Technology were hired. (iii) Having Spanish as common language facilitated the communication between staff coming from the head office and local staff. However, while enjoying this advantage, the cultural differences required an adaptation effort by both parties to achieve effective communication. (iv) The previous experience of Company B in similar projects in which it had to transfer its technical know-how (building a plant in Almería in 1998, sale and construction of a turnkey plant, between 1993 and 1995, in the Russian Federation).

FDI project impact on the host country development:

From a macroeconomic perspective:	
Employment:	(i) Direct employment creation, more than doubling the number of employees (from 30 to 70), one-fifth of those with university or technical training. (ii) Indirect employment creation, both in the new plant construction as well as in the local suppliers (transport, packaging and auxiliary raw materials). (iii) These effects will be amplified with the construction of the new plant of Phase II.
Balance of trade:	Although most of the production of Phase I is destined for the local market, there is a positive impact of certain relevance on Mexico's trade balance as a result of the imports substitution in the case of some products and of the exports to the US. The expected impact of Phase II is very significant, since it is expected to export up to two thirds of the TCC production of the new plant to be built.
Tax revenues:	Public administrations have also seen their tax revenues grow due to the increased activity of the subsidiary (VAT and other taxes and contributions).
Technology transfer:	The investment made has been paired with effective technology transfer, which will be much more significant in Phase II of the project, resulting not only in an increase in production but also in a significant increase in its added value.
From the different stakeholders' perspective:	
Employees:	They become part of a business group that has its own technology in the production of TCCs and which makes a strong commitment to the growth of its Mexican subsidiary, strategically reorienting it. All this results in the creation of stable employment, part of which is qualified, while offering opportunities for professional development (supported by continuous training) and internal promotion. It is worth mentioning the improvement in the compliance with the labour safety regulations by the workers in the quarry and the reduction of accidents at work.

Local Customers:	For the different productive sectors that use calcium carbonates in Mexico (local customers), the presence of Company B increases the offer of technologically advanced TCC products, which in some cases were imported and more expensive. On the other hand, the ability to adapt the product to the specifications required by its local customers (customisation) has contributed to improve its competitiveness by obtaining improvements in quality and in manufacturing costs.
Local suppliers:	There were significant tensions at the beginning, because its quality and service standards did not fully meet the specifications and requirements of Company B. With the technical support from the subsidiary, the major suppliers have substantially improved their performance.
Local Competitors:	These have noticed greater competitive pressure derived from the greater technological strength and the growth that the subsidiary is experiencing, since the majority of the production of Phase I is destined to the Mexican market. Thus, for example, the subsidiary has captured significant market share, at the expense of several local competitors who have tried to copy the product (imitation effect).
Local community:	The subsidiary takes part in community development programs through the funding of school scholarships and the sporting events sponsorship.
Science and innovation system actors:	Close cooperation with different science and innovation system actors at federal and local levels: (i) CONACYT (National Council of Science and Technology) to carry out research projects linking universities and technological centres such as CIMAV (Centre for Research in Advanced Materials), (ii) professional internship programs with the Lerdo Technological Institute and the University of La Laguna.
Environmental policy:	<ul style="list-style-type: none"> · Environmental risks associated with its activity: (i) it has a sensor system outside the plant for the monitoring and control of particles in the air, (ii) the production activity does not generate waste and the dust produced in the ore grinding process is captured by powerful filters inside the industrial facility itself. · Irreversible environmental impacts linked to extractive activity: vegetation removal, soil and rock and local fauna impact, although - according to the Environmental Impact Study - they do not affect fragile ecosystems. To compensate for these negative impacts, the company carries out the reforestation of native species according to the regulations established by the Ministry of Environment and Natural Resources of Mexico.

FDI project impact in the home country (Spain):

Suppliers:	Pull effect on some Spanish suppliers that manufacture machinery for industrial processes. These suppliers have met the needs of the Company B subsidiary both through exports from Spain and through equipment manufactured in Mexico.
Improvements in production costs and quality:	The company has had to adapt the technical specifications of some of the qualities produced in Spain to conform to the standards demanded by the North American companies that work with technologically more advanced processes (e.g. in the production of polymers). These adaptations have led to significant improvements in manufacturing and quality costs in certain degrees of calcium carbonate. The fact of being present in technologically more advanced markets such as the North American market has led, in addition to the development of new product qualities, to increase the technical competencies of Company B.
Employment:	There have been no negative effects on employment levels in Spain and, in the medium term, it can have positive effects in terms of some qualified jobs creation at a corporate level (e.g. in the R + D + I area or in the financial area in relation to reporting and control of subsidiaries abroad).

Contribution to achieving the Sustainable Development Goals (SDG) by COMPANY B Subsidiary in Mexico:

Sustainable Development Goals		Subsidiary contribution (specific goal to which it contributes)
Direct Contribution	DG 1 – End poverty in all its forms everywhere	<ul style="list-style-type: none"> Stable and qualified employment generation (1.2)
	SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	<ul style="list-style-type: none"> Periodic training for all employees (4.4) Cooperation with local universities: professional practices (4.4) Engagement in local scholarship programs and sports events (4.1)
	SDG 5 – Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> 10% of direct jobs are held by women (5.1)
	SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	<ul style="list-style-type: none"> Remuneration and decent and safe working conditions (OHSAS certification) (8.8)
	SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	<ul style="list-style-type: none"> Industrialisation (increased local production value added) (9.2) System for capturing the particles generated in the industrial process inside the plant and external sensor system for the control of particles in the air (9.4) Transfer to the subsidiary the technological know-how for the production of TCCs (Phase II) (9.5) Cooperation with the country technological centres (CIMAV) in research projects (9.5)
SDG 15 – Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	<ul style="list-style-type: none"> Reforestation Plans for native species (15.4) 	
Indirect contribution	To all SDGs	<ul style="list-style-type: none"> Taxes and fee payment

Note: The different SDGs specific goals (the numbering of those in which the subsidiary contributes to its achievement is specified in brackets) can be found in Table 3

Source: Authors' own elaboration

Company C - China (Automotive sector)

Description of the promoting company:

Status:	<ul style="list-style-type: none"> · Company C is part of a vertically integrated business group, supplier of steel products for the automotive, industrial, construction or windmill sectors. · Currently this business group is an important family owned Spanish multinational and run by the second generation.
Origins:	The group has its origins in an entity created in Madrid in 1958 dedicated to sheet steel transformation. In 1989, following a vertical integration process, the company began supplying stamping parts to automotive manufacturers. Subsequently, in 1997, Company C was set up as an independent business unit dedicated to the manufacture of components and metal assemblies for the automotive sector.
Activity:	Three major product lines: (i) stamping and assembly of body-in-white parts, (ii) chassis products and (iii) opening mechanisms and systems.
Production plants:	95 industrial plants and 12 R & D centres in 20 countries.
Other features:	<ul style="list-style-type: none"> · More than 34,200 employees worldwide (2015), of which more than 1,300 are focused on innovation. · Company C represents around 75% of the total turnover of the group. · Very concentrated sector, and barely three companies - including Company C - have the capacity to supply their products globally to the largest car manufacturers in the world. · Competitive strength resulted from its vertical integration (controls the entire value chain from machinery and matrix manufacturing to design, development and component manufacturing) and with a longstanding relationship with one of the world's leading steel manufacturer.

Description of the FDI project:

Project:	Building a production plant in Shenyang (northeast China) launched in 2013.
International strategy:	Project aligned with the strategic axis of the Company C geographic diversification and, to a lesser extent and more in the medium term, with client diversification.
Investment goal:	Growth strategy in China, the largest automobile market in the world and the one with the greatest growth prospects (market-seeking).
Previous presence in China:	Company C has been present in China since 2007 after building a hot stamping, profiling and assembly plant for automobile body and chassis components in Kunshan. At the end of 2011, Company C had three new plants in Kushan, Wuhan and Chongqing in China plus two plants from a German group acquired in 2010. The one in Shenyang's would be its sixth plant with investment of 60 million.
Market environment in China:	<ul style="list-style-type: none"> · The development of the automobile market in China began in the early 1990s. After China acceded to the World Trade Organisation (2001), it would see truly accelerated development. Between 2002 and 2007, the automobile market in China grew at an average rate of 21% annually. In 2009, China overtook the US as the world's largest automobile manufacturer. · Factors in the spectacular development of the automobile industry in China: (i) strong and sustained economic growth of the country, (ii) increasing purchasing power of families and growth of the middle classes, (iii) fast development of the country's roads and motorways network, (iv) increasing number of local and multinational automobile manufacturers willing to invest in China, even though the latter are required to form joint ventures with local manufacturers.

Organisational characteristics of the subsidiary:

Control:	The Shenyang subsidiary is 100% controlled by Company C.
Employment:	<ul style="list-style-type: none"> · At the end of 2013, it had a workforce of 193 and this has now grown to 422, all local except for two expatriates: the manager of the plant, a US national, and the quality director, a Mexican national. · About 16% of the workforce are women and 92% of the workforce are aged under 35 years old.
Parent company-subsidiary relationship:	The Shenyang plant reports to the Asia Division, based in Shanghai, which in turn reports to the head office in Madrid. Company C grants a wide operational autonomy to each plant, although - given its productive role - the commercial management with the purchasing department of the manufacturer's plant (orders) is carried out by the divisional office in Shanghai. The Shenyang plant maintains great interaction with customers' plants, via the divisional office, in quality and logistics, purchasing, HR, environment and occupational risk prevention.

Knowledge-transfer process from the head office to the subsidiary:

Technological and productive know-how:	<ul style="list-style-type: none"> - The components and metal assemblies provided by Company C involve complex manufacturing processes using advanced technology. The most outstanding technology is hot stamping, an innovative process that allows the moulding of ultra-resistant steels in complex shapes, more efficiently than with conventional cold stamping. - Company C had to transfer its technological know-how to the new plant and implement the different production processes, according to the quality, safety and environmental standards established by its clients, the country's legislation and the company itself. - Company C has developed its own execution model for greenfield projects, in which aspects related to both the construction of the plant and the transfer of the necessary knowledge are considered in an integrated manner.
Mechanisms and factors to facilitate knowledge absorption:	<p>(i) Hot stamping technology previously transferred to the Kunshan plant, facilitated its subsequent transfer to the one in Shenyang: (a) Company C corporate systems and production processes already adapted to the local language, (b) Kunshan staff actively contributed in the staff training of Shenyang. Language and cultural differences did not represent important barriers, unlike the first implantation in Kunshan.</p> <p>(ii) Structured and systematic approach to effectively and efficiently transfer key knowledge through the designation of a multi-disciplinary senior team responsible for project execution from start to finish, that will operate from the regional office in Shanghai: (a) Transfer does not occur from the head office, geographically very distant, but from the regional head office, (b) Suitability/aptness/adequacy of the two expatriates profile, plant manager and quality manager, from the plants of Alabama (USA) and Toluca (Mexico) respectively.</p> <p>(iii) Recruitment of employees with appropriate qualifications and their subsequent training and retention: (a) hiring HR consultants, (b) involvement in employment fairs from the main universities in the area and use of social networks such as Weibo, Zhaopin, LinkedIn, (c) launch of an innovative campaign, "Bring a friend", rewarding those workers who identified candidates who could be hired, (d) building Shenyang Training Centre, a unit responsible for training at the plant and organising practices at the Kunshan plant during the project launch phase.</p> <p>(iv) Cooperation agreements with vocational training centres and local universities to avoid unwanted staff turnover, which is part of a very dynamic labour market. In addition to attractive remuneration conditions (higher than those of local companies in the same sector), Company C offers professional development programs and internal promotion opportunities.</p>

FDI project impact on the host country development:

From a macroeconomic perspective:	
Contribution to GDP:	By being a greenfield investment, the productive capacity increased as well as the GDP of the Chinese economy.
Technology transfer:	Transfer of advanced technology (hot stamping) in a sector considered a priority by the Chinese government, contributing to the consolidation of the industrial cluster of the automotive sector in Shenyang.
Employment:	<ul style="list-style-type: none"> - Direct employment creation, with approximately 422 jobs generated at the plant until the end of 2015 plus the induced increase in the staff of the regional office in Shanghai. - Indirect employment generation/creation, resulted from the construction of the plant (more than 90% of the suppliers were local), as well as the plant's own productive activity (suppliers of raw material - steel plants located in China - and of ancillary products and services).
Balance of trade:	The net effect on China's trade balance is not significant: (i) the production of certain products by hot stamping requires, according to the quality standards set by the customer, steel types that are not currently made in China (ii) almost all the plant production is destined for the local market, although since 2015 a small percentage of production has been exported to Thailand. These imports and exports tend to cancel out.
Tax revenues:	The different public administrations benefit from: (i) revenues from the rental of the land, which is public property; (ii) taxes, fees and licenses paid for the construction of the new plant; and (iii) taxes that correspond to ordinary business (mainly corporation tax and VAT).
From the different stakeholders' perspective:	
Employees:	<ul style="list-style-type: none"> - Employees join one of the leading companies worldwide in their activity field with strong growth in China. Company C offers job security, attractive compensation conditions, secure jobs, continuous training and opportunities for professional growth and internal promotion. - Company C has developed its own health and safety standards, the Health and Safety Indicator (HSI), to evaluate compliance with this policy by its different production plants. In addition, it facilitates the learning between plants, as in the internal audit teams the safety officers of other plants are involve/take part.

Local customers:	Direct customers, automotive multinationals (specifically BMW, Daimler, General Motors, Hyundai and Volkswagen) have manufacturing facilities in the Shenyang area. These manufacturers were already customers of Company C before, so the Shenyang plant allows them to strengthen their relationship by providing them with technologically advanced products that meet their quality specifications, guaranteed supply and competitive price, ensuring a proper environmental management and compliance of human rights throughout its supply chain. These multinationals are present in China through a joint venture with a public automobile company. In this sense, the spillovers of Company C's technological knowledge to the local partner of the joint venture may potentially be significant.
Local suppliers:	Positive impact on traditional steel local suppliers. Specialists in the technical and purchasing areas of the divisional office in Shanghai have cooperated with such suppliers to improve their production processes to achieve higher quality standards.
Local Competitors:	Demonstration effect among local competitors. Hot stamping technology has only been in China for seven years. In 2009, only three companies had hot stamping plants in the country. However, the strong growth of the Chinese market and the key technology nature for the automotive sector have led to different local industrial groups to invest and equip themselves with this new technology.
Local community:	(i) Contribution to training and capacity development of the local population through cooperation agreements with vocational training centres in which students are offered an internship program (there are currently 12 trainees at the plant) as well as training sessions in the schools of engineering on technical aspects related to their studies. (ii) Social action initiatives that arise from the knowledge of each of the plants of the social reality that surrounds them: "Run of River" project (initiative against global warming). (iii) Involvement in different forums and business associations such as the Spanish Chamber of Commerce in China Shanghai, Shanghai Association of Enterprises with Foreign Investment, China University Recruitment and China Government Safety Production Meeting (note that these relations are carried out from the divisional office in Shanghai, in close coordination with the Directorate of Corporate Communication and Institutional Relations in Madrid).
Environmental policy:	The Shenyang plant has no significant environmental impacts or risks arising from its activity as it has no particularly polluting processes and does not generate significant atmospheric emissions or industrial liquid spills. The raw material residues (scrap) are minimised as much as possible and those that are produced are used again as raw material for the manufacture of steel. Hazardous waste generated (acids, oils, contaminated rags) are removed by authorised agents. The Shenyang plant obtained certification of its environmental management system in accordance with ISO 14001 in 2016.
Social Responsibility:	Company C is making special efforts to improve the energy efficiency of the hot stamping process, a technology whose energy consumption is much higher than in the case of cold stamping. It also undertakes commitments at another stage in the upstream supply chain (traceability policy for minerals likely to come from conflict countries) and downstream (achieving a reduction in CO2 emissions during the vehicle usage phase and upon arrival at the end of its useful life, the recyclability potential of the components manufactured by the company are 100%). In this sense, Company C is helping to mitigate one of the most serious problems caused by the rapid growth of the car fleet in China, the air pollution caused by them and especially affecting urban areas.

FDI project impact in the home country (Spain):

Competitive position:	The growth in China contributes to strengthening the competitive position worldwide of Company C, and also in Spain, for several reasons: (i) successful implementation in Shenyang contributes to strengthening the relationship with Daimler, General Motors and Volkswagen, three manufacturers which also have plants in Spain and important customers of Company C; (ii) having a larger size gives them access to greater scale economies (e.g. by being able to distribute R & D & I costs of corporate management systems over higher turnover) and to greater negotiating power with raw materials suppliers and machinery manufacturers; and (iii) the experience gained in Shenyang contributes to improving the organisational capacity to execute new greenfield projects.
Geographic diversification:	Consolidation of Company C presence in China, the largest automotive market in the world. The geographical markets diversification, with the consequent increase in income, allows it not only to take advantage of growth opportunities at a global level but also to mitigate fluctuations in demand in the Spanish market, as well as in other markets.
Exports:	Shenyang plant activity has generated capital goods and tooling exports from Spain. Some machinery elements of the stamping lines of the Shenyang plant like the presses or part of the tooling have been supplied from Spain.
R & D:	An example of how international expansion enhances/strength/promotes high added-value functions in the country of origin is the creation of a Corporate Technology Institute, which will centralise training in new technologies in the bodywork area on a global scale, and the Corporate Knowledge Centre in New Materials, both located in the Automotive Intelligence Centre, an open innovation centre promoted by the Basque Government in Amorebieta, Biscay.

Employment:	Since direct investment is the only way to take advantage of the opportunities in China (as export from the plants in Spain is not viable), the investment in Shenyang has no negative effects on the employment levels in the stamping plants in Spain and, in any case, contributes to consolidate the employment level in the head office in Spain.
Spain Brand:	Positive impact on the "Spain Brand" in China. Company C is one of the Spanish industrial multinationals with a greater investment volume, productive plants and R & D centres in that country.

Contribution to achieving the Sustainable Development Goals (SDG) by COMPANY C Subsidiary in China:

Sustainable Development Goals		Subsidiary contribution (specific goal to which it contributes)
Direct contribution	SDG 1 – End poverty in all its forms everywhere	<ul style="list-style-type: none"> • Generation of stable and qualified employment (1.2)
	SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	<ul style="list-style-type: none"> • Periodic training to all employees (4.4) • Cooperation with universities and local vocational centres (internship program) (4.4)
	SDG 5 – Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> • 16% of direct jobs are held by women (5.1)
	SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	<ul style="list-style-type: none"> • Remuneration higher than the local companies one and decent and safe working conditions (8.8) • Low work-related accident rates, in an activity with significant potential risks. Certified occupational safety system (8.8)
	SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	<ul style="list-style-type: none"> • Helps consolidate the automotive cluster in Shenyang. Cooperation with business associations and sectoral forums of the Chinese Government (9.2) • ISO 14001 certified environmental management system. No emission generation or industrial waste. Recycling of scrap metal. Energy efficiency measures (9.4) • Transfer innovative technology to the subsidiary (hot stamping) (9.5)
	SDG 12 – Ensure sustainable consumption and production patterns	<ul style="list-style-type: none"> • Downstream Sustainability: Components that contribute to cleaner, safer, and at the end-of-life cars, 100% recyclable (12.5)
	SDG 13 – Take urgent action to combat climate change and its impacts	<ul style="list-style-type: none"> • Involvement in the "Run of River" initiative against global warming (13.3)
Indirect contribution	To all SDGs	<ul style="list-style-type: none"> • Taxes and fee payment

Note: The different SDGs specific goals (the numbering of those in which the subsidiary contributes to its achievement is specified in brackets) can be found in Table

Source: Authors' own elaboration

Company D – Poland (Lighting)

Description of the promoting company:

Head office:	Barcelona province
Year of incorporation:	1929
Status:	Currently owned by three family groups.
Activity:	Design, manufacture and distribution of professional lighting products in order to provide light solutions for both interior and exterior spaces with three business lines: (i) technical lighting and interior architecture, (ii) decorative lighting, (iii) emergency lighting.
Production plants:	Production plants in Spain, China, Poland, Mexico and Peru. Foreign sales subsidiaries in the EU (Germany, France, Holland, Italy and Portugal), Asia (Singapore) and Latin America (Chile).
Other features:	<ul style="list-style-type: none"> · Leading Spanish company of technical interior lighting. · More than 70% of its turnover is generated in international markets. · Currently employs a team of 600 people worldwide. · Highly fragmented sector and a quite mature market, although it is undergoing a process of technological change due to LED technology introduction. · Demand strongly linked to the construction sector, which is subject to strong fluctuations of cyclical nature.

Description of the FDI project:

Project:	In 2009, Company D acquired a company dedicated to the production and distribution of lighting systems for interiors in the Polish market. The subsidiary is located in Warsaw and the factory is located in the town of Jacentow in the Swietokrzyskie region, located 137 km south of the capital.
Project Company:	<ul style="list-style-type: none"> · Prior to its acquisition, for eight years this company was the product distributor of Company D in Poland, having also a relationship of mutual trust being two family-owned companies. · At the time of its acquisition, this company was the third company in the Polish market by revenues, competing mainly in two market segments: large retail stores and hospitals. Specialised lighting for the hospital sector is a niche market that requires specialised know-how to respond to the demanding health regulations that must be fulfilled by the products for clean rooms in hospitals, clinics or research centres (Good Manufacturing Practices in Europe and the US Food and Drug Administration), which represents a significant barrier for many manufacturers.
International strategy:	The corporate strategy of Company D is based on three main pillars: (i) a competitive approach (positioning in the medium-high and high quality product segments, providing innovation and design, and offering an integrated and customised service to customer needs), (ii) international diversification of their markets, (iii) production costs reduction, given the increasing price pressure derived from competition from manufacturers from low cost countries, especially from Asia.
Investment goal:	The FDI project in Poland was clearly aligned with the corporate strategy pillars of Company D: (i) would strengthen its presence in a market with significant growth prospects, acquiring a consolidated company and a large distribution network, which allowed access to new customers and to geographically diversify its income source, (ii) it had manufacturing capacity in a location with low costs and a high labour qualification, allowing it in the medium term to supply neighbouring countries (and especially the German market) (iii) the acquisition of the Polish company allowed Company D to incorporate a new product line, hospital lighting, a market segment with great potential for growth due to the strong development of private health care in Poland.

Organisational characteristics of the subsidiary:

Employment:	At the time of its acquisition in 2009, the Polish company had 180 employees and had the “protected employment enterprise” status in accordance with Polish law, as more than 25% of the total of employees are people with different disability degrees.
Business model:	Although smaller and less internationalised, the acquired company was similar to Company D in its configuration, managing the same value chain activities (design, production and commercialisation).
Parent company-subsidiary relationship:	From the beginning, the Polish subsidiary performance of Company D has been characterised by a high degree of autonomy, both strategic and operational. The Polish subsidiary directly manages its value chain activities, not having to rely on activities carried out by other subsidiaries and/or the parent company. This allows them, to enjoy great autonomy in commercial and manufacturing decisions, having great flexibility to offer a customised and quality service to their customers. Despite the wide autonomy in making operational and strategic decisions, the subsidiary keeps the parent company informed by periodically reporting on their most relevant decisions (for example: new employees added into the company or evolution of economic results).

Reconfiguration:	With a view to boosting its presence in the German market, it has recently been decided that the German subsidiary, which was previously dependent on the parent company, will depend on the Polish subsidiary, given its greater geographical and cultural proximity.
Subsidiary evolution:	The Polish subsidiary of Company D has experienced a strong increase in its sales since 2009, despite the fact that the Polish economy has experienced a downturn in the growth rate in the last three years. Currently the subsidiary has about 290 employees, of whom around 20% are women and 29% are people with some type of disability or handicap. The subsidiary has never had expatriates among its staff.

Knowledge-transfer process from the head office to the subsidiary:

Initial situation:	At the time of its acquisition, the subsidiary was a consolidated company in its sector that had: (i) ISO 9001 quality management certification, (ii) own know-how and (iii) highly trained staff. However, most of its manufacturing processes were manual and inefficient. Therefore, after the acquisition, the parent company focused its efforts on transferring the operational know-how necessary to improve the productivity of the subsidiary. The goal was to make the local manufacturing look as much as possible to the Spanish one (same processes, same machinery).
Technological know-how:	Since there were multiple manual processes, the technology transfer was very intense in the first two years, and it required frequent stays of the key technical operations staff from Spain. As a result of this transfer of knowledge, together with the investment in specialised machinery, it was possible to reduce the operating costs significantly, which resulted in an improvement of eight percentage points in the gross margin over sales after three years.
Mechanisms and factors to facilitate knowledge absorption:	(i) The primary mechanisms used to transfer the key knowledge were: (a) the existence of documentation related to processes being automated, (ii) the frequent trips of technicians from the head office who had short stays, complemented by some trips to the plants in Spain by the Polish subsidiary operations director. (ii) High absorption capacity of the knowledge transferred by local employees. The subsidiary had technically qualified staff, which added to the effective communication in English between local managers and staff with those technicians traveling from the parent company, explain the speed and effectiveness in the implementation of the new production processes. (iii) As Poland and Spain are relatively close geographically, the facility of frequently sending technicians did not make the use of expatriates necessary, which was perceived as "a positive signal" of trust in the subsidiary's capabilities, translating in a high level of collaboration and in a "smooth handover".
New product offerings:	The subsidiary design team has been strengthened through new staff recruitment, which together with the introduction of multiple references from the parent company, with the required adjustment to the local market when needed, has resulted in a remarkable expansion of the product catalogue offered by the subsidiary.
Financial management centralisation:	The changes implemented to centralise financial management at a group level initially generated some resistance because the culture of an independent family business collided with the vision of being a subsidiary of a multinational group. However, this resistance was overcome. The mechanisms used to transfer and implement the financial management procedures of the parent company in the subsidiary have been: (i) the systematisation of such knowledge, (ii) the professional qualification of those responsible for the project both in the subsidiary and in the parent company and their joint efforts.

FDI project impact on the host country development:

From a macroeconomic perspective:	
Employment:	- Direct employment creation, from 180 to around 290 employees. - Indirect employment creation in: (i) local suppliers of materials and components, (ii) companies to which the subsidiary has had to outsource part of its production, since its plant operates at full capacity.
Trade balance:	Although the subsidiary is focused on supplying the domestic market, the recent assigned responsibility on the German market and the commercialisation of hospital lighting by the other subsidiaries of the group, suggest a significant increase in exports to relatively short term, contributing positively to the country's trade balance.
Tax revenue:	Public administrations have seen fiscal revenues grow as a result of the subsidiary increased activity.
Technology transfer:	Effective technology transfer, which together with the investment in new machinery, have allowed a remarkable improvement of the company productivity, reinforcing at an aggregate level the competitiveness of the technical lighting sector in Poland.

From the different stakeholders' perspective:	
Employees:	(i) The subsidiary has not only continued the acquired company activity, but also increased its growth and competitiveness, consolidating the previous level of employment and creating new employment. (ii) Since almost one-third of the workforce are people with some disability, making the subsidiary a stronger company is a valuable element since alternative employment opportunities are not many for this group. (iii) Job creation has occurred mainly at the factory level, located in a region of the country with a high unemployment rate, well above the national average. (iv) Specific actions have been performed to improve occupational health conditions (the most significant one is the substitution of the ceiling for the production facilities that contained asbestos). (v) The subsidiary has an occupational Health and Safety Plan that is subject to periodic internal audits.
Local Customers:	Local customers have benefited by an increase in the specialised products offer (decorative and emergency lighting are added to interior lighting), which have higher quality and technology, more attractive designs and more frequent developments, and all of it with a price maintenance policy (possible due to improvements achieved in efficiency and productivity).
Local suppliers:	The need to outsource a part of the production has led to a homologation process of suppliers, to ensure that they comply with the quality standards demanded by Company D, which has implied to a certain transfer of knowledge.
Local Competitors:	Even though the professional lighting market in Poland has grown for all companies in the sector, local competitors would not have been able to imitate and follow the strategy of Company D or other large multinationals present in the country such as Philips and Legrand, and would have opted to compete by lowering prices and offering undifferentiated products. In any case, the knowledge spillover towards the local competitors do not seem to have been significant to date.
Local community:	The subsidiary activity does not pose significant environmental risks, although adequate waste management is required, both in the cleaning stage prior to painting (degreasing) as well as in the painting stage itself. This last phase is performed by applying solid paint in paint tunnels or cabins enabled for this purpose with suction systems to avoid the emission of pollutants and to recover the material not used. As for the non-recoverable generated waste, these are removed by authorized agents. The subsidiary is ISO 14001 environmental management certified and is investing towards greener and more efficient technologies such as the change of the heating system from fuel oil to gas.
Other social actors:	No significant impacts have been identified in other social actors, only a very limited cooperation with a local research centre for some very specific technical certification that requires the use of their equipment.

FDI project impact in the home country (Spain):

New product line:	A tangible benefit, as a result from the acquisition of the subsidiary, is the introduction of a new product line, hospital lighting, which is highly specialised. This has allowed Company D to access the know-how related to the design, manufacture and commercialisation of lighting for hospitals and clean rooms, which can be capitalised in the different markets in which it operates. In fact, from Spain, in collaboration with the subsidiary in Poland, new products for this market segment are being developed, with an international focus and the production of which will be centralised in the Polish subsidiary.
Exports:	Significant increase in exports to the Polish market (103% in the period 2009-2015).
Mitigating effect:	The subsidiary's positive economic performance in Poland has helped to financially mitigate the severity of the crisis experienced in the Spanish market. In this sense, the inevitable restructuring of the operations of Company D in Spain, as a consequence of the sharp decline in demand from the construction sector during 2008 to 2013, would have been much more intense and traumatic had it not been for the internationalisation strategy undertaken, and especially the Polish subsidiary contribution.
Experience:	Poland's experience has been very useful to Company D when dealing with the subsequent acquisition of a Peruvian company in 2011, both in the industrial (transfer of process know-how) as well as commercial aspects (e.g. the progressive transition from local brands to those of the group).

Contribution to achieving the Sustainable Development Goals (SDG) by COMPANY D Subsidiary in Poland:

Sustainable Development Goals		Subsidiary contribution (specific goal to which it contributes)
Direct Contribution	SDG 1 – End poverty in all its forms everywhere	• Significant permanent employment creation in a region with high levels of unemployment (1.2)
	SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	• Periodic training for all employees (4.4)
	SDG 5 – Achieve gender equality and empower all women and girls	• 20% of direct jobs are held by women (5.1)
	SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	• Protected employment status, with 29% of employees with functional diversity (8.5)
	SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	• Certified environmental and industrial safety management systems (ISO 14001) (9.4) • Investment in greener and more efficient heating system (change from fuel oil to gas) (9.4) • Transfer the industrial know-how for automation processes to the subsidiary (9.5)
Indirect contribution	To all SDGs	• Taxes and fee payment

Note: The different SDGs specific goals (the numbering of those in which the subsidiary contributes to its achievement is specified in brackets) can be found in Table 3

Source: Authors' own elaboration

Company E - Mexico (Toll roads)

Description of the promoting company:

Head office:	Madrid
Year of incorporation:	More than 40 years
Status:	Family owned business group
Activity:	Development of civil works and construction infrastructures. Three major business areas: (i) construction, (ii) industrial, and (iii) investing activities (mainly including concessions for transport infrastructures and renewable energy).
Corporate strategy:	Get synergies between the different business lines and risk diversification, given the strongly cyclical nature of construction activity.
Other features:	<ul style="list-style-type: none"> - One of the top privately-held construction groups of Spain, ranked among the top ten leading companies dedicated to the construction of infrastructures in Mexico. - In 2007, Company E began an important and accelerated diversification process by investing in new business lines and internationalising its activity. - Currently around 60% of its revenue comes from foreign markets as a result of its presence in Mexico, Peru, Guatemala, Poland, Romania and India.

Description of the FDI project:

Project:	In September 2007, the Federal Secretary of Communications and Transportation (SCT) of the Government of Mexico, through the resolution of an international bidding process, granted to the consortium formed by Company E (75%) and its local partner (25%), a business construction group from the state of Veracruz, the concession to construct (or, if necessary, modernise), operate, exploit, preserve and maintain for 30 years the two segments of the federal road 190D (toll road) in the state of Chiapas, Mexico.
Project characteristics:	<ul style="list-style-type: none"> (i) First segment: "Arriaga-Ocozacoautla" motorway of 93 km, which is divided into two sections: (a) Arriaga-Tierra de Libertad, 19 km already existing and in operation, and (b) Tierra de Libertad-Ocozacoautla, 73 km to be built. (ii) Second segment: not connected to the previous one, it refers to the motorway "Tuxtla Gutiérrez-San Cristóbal de las Casas", 46.5 km already existing and in operation. (iii) Revenues to be received by the concessionaire: they come from the tolls paid by the users of the two motorways, whose rates are updated according to the National Consumer Price Index (NCPI) of Mexico. (iv) The total planned investment of the project was 3,340 million pesos (about 206 million).
International strategy:	In 2007, almost all of the group's turnover came from the Spanish market. Given the negative prospects of the domestic market, Company E decided to focus its international expansion on a limited number of countries in which the fit between the potential market and the company's resources would offer greater chances of success.
Investment goal:	Project clearly aligned with Company E's corporate strategy, which anticipated the sharp drop in demand from the construction sector that occurred from 2008 onwards, allowing it to: (i) enter into a new activity line in which it did not have previous experience (motorways concession), (ii) geographically diversify its income with the start of its presence in Mexico.
Infrastructure sector in Mexico:	Mexico's development prospects were limited by the lack of investment in infrastructure, much stronger in the southern part of the country, especially in Chiapas, a state with a greater proportion of Mexico's poor population and high levels of illiteracy. Company E's FDI project is part of the development program for the South-Southeast region and, at a national level, in the CTS's "Communications and Transport Sectorial Program 2007-2012" and more specifically in the "2007-2012 Motorway Program" under the model of Public-Private Partnership.

Organisational characteristics of the subsidiary (concessionaire):

Origins:	In order to be able to attend the CTS tender, a special purpose company was established, which 75% was owned by Company E and 25% by its local partner.
Risk management:	The risk management implicit in the concession was centralised in the concessionaire company. In early 2008, due to delays in the construction of Tierra de Libertad-Ocozacoautla section, Company E decided to take over the management of the construction work and reconsider the relationship with the local partner. It was agreed to purchase the local partner's shares in the construction company and in the concessionaire by Company E. Subsequently, the Fund for Foreign Investment (FLEX) of the Spanish Government, managed by COFIDES, became a shareholder of the subsidiary through two operations, reaching a share of 35.36%, the remaining 64.64% belong to Company E. The construction of the Tierra de Libertad-Ocozacoautla section was carried out within the term established in the conditions of the concession, entering into operation at the end of 2009.
Employment:	Currently, the concessionaire employs 193 people, of whom 22% are women.
Structure:	Company E has a country head office in Mexico City that acts as coordinating entity of the different subsidiaries and projects in the country. The subsidiary managing director has a dual hierarchical dependency: (i) reports to the corporate manager of the concessions division (Madrid) and (ii) to the country manager (Mexico City).

Knowledge-transfer process from the head office to the subsidiary (concessionaire):

Local partner contributions:	<ul style="list-style-type: none"> - Bidding phase: (i) experience as a motorway operator, (ii) legal framework knowledge/understanding, (iii) interaction with the Mexican federal administration, (iv) share with Company E the high bid preparation costs (as specific technical studies are required). - Construction phase: (i) knowledge of local suppliers, (ii) share the investment effort through its shares in the capital of the concession company (up to its withdrawal in early 2008).
Company E contributions:	<ul style="list-style-type: none"> - Bidding phase: (i) know-how regarding how to plan and execute civil works efficiently (strict compliance with deadlines and costs and risks control), (ii) ability to obtain financing (long term loans granted by a large Spanish bank, which covered two-thirds of the total investment). - Construction phase: (i) know-how related to the planning, execution and monitoring of works, which resulted in greater efficiency, low accident rates during construction and compliance with deadlines. Work planning and management practices introduced include: (a) safety management and occupational hazards prevention during construction, (b) suppliers management (instead of concentrating subcontractors on a few large companies decision was made to hire a much larger number - "greater atomisation" - which allowed to work on several sections/segments of the road in parallel and mitigate the risks for non-compliance).
Facilitating knowledge transfer mechanisms in works management used by Company E:	<ul style="list-style-type: none"> (i) Use of computer systems and software developed by the head office for the planning, execution, monitoring and works control. (ii) Sending of expatriate staff: the subsidiary initially had a management team made up of five expatriates, to which it should be added the expatriates sent during the construction of the Tierra de Libertad-Ocozocoautla section. Currently the number of expatriates in the subsidiary has been reduced to three. (iii) The implementation of standard quality, safety and environmental management systems (the operation and maintenance of the roads have ISO 9001, ISO14001 and OSHAS 18001 certifications).
Mechanisms and factors for facilitating knowledge absorption:	<ul style="list-style-type: none"> (i) Recruitment of qualified technical staff (engineers) through a cooperation program with the Technological Institute of Monterrey, Campus Chiapas in Tuxtla Gutiérrez. These people followed an induction programme that included a training period at the head office in Spain. (ii) The subsidiary's human resources policy (based on offering salaries above the market average, job stability, professional treatment, and professional growth opportunities), which contributed to: (a) creating a friendly employment climate to embrace new management systems and practices, (b) retention of local managers and technicians. (iii) Common language, which has facilitated since the beginning an easy communication between the staff that came from the parent company and the local staff.

FDI project impact on the host country development:

From a macroeconomic perspective:	
GDP:	Increase in the regional GDP as a result of greater connectivity in the interior of the state of Chiapas and of this one with the rest of the country: (i) the companies that use the motorway (transport of goods) have seen their competitiveness improved due to shorter distance in the route, significant time savings and consequent reduction of transport costs together with lower levels of traffic accidents, (ii) improved communications has led to a significant increase in traffic between the main cities of the interior of the state and the Pacific coastal area, contributing to the development of the local tourism sector.
Employment:	Direct and indirect employment generation of a certain relevance, it was estimated that during the construction phase of the Tierra de Libertad-Ocozocoautla road section, 1,300 people were employed. During the commercial exploitation phase of the two motorways, permanent employment was created for around 200 people.
Tax revenue:	Public administrations have seen tax revenue grow as a result of taxes associated with construction activity and the subsequent entry into operation of motorways. In particular, the subsidiary contributes to the federal budget through corporate income tax and to the budget of the state of Chiapas through indirect taxes on tolls.
Technology transfer:	Effective transfer of know-how related to the efficient management of large civil engineering projects, which has generated an imitation effect by local construction groups that have improved their competitiveness.
From the different stakeholders' perspective:	
Users:	<p>Users have clearly benefited from this new infrastructure:</p> <ul style="list-style-type: none"> (i) The route has significantly increased the connectivity in the interior of the state of Chiapas with the rest of the country, especially with the neighbouring states of Oaxaca and Veracruz. (ii) Significant reduction in travel time, thus the road trip between the capital of the state, Tuxtla Gutiérrez and the Pacific coast, Arriaga, has gone from 6 hours on road 190 to 2 hours on the motorway, resulting in improvements in time saving, comfort, safety and fuel. (iii) Very significant road safety improvement with an important accident rate reduction due to: (a) road supervision improvement, which has reduced the assistance time in the event of an accident, (b) adequate signalling, (c) heavy vehicles load and speed controls, (d) fencing surveillance, which has reduced illegal road access to avoid toll payment.

Staff:	The employees of the concession company become part of a business group that considers Mexico one of the key countries in which to grow and that applies a human resources policy focused on attraction, motivation and retention of local talent. All this results in permanent employment generation, part of which is qualified, while offering opportunities for professional development supported by ongoing training programs and internal promotion.
Local sector companies:	<ul style="list-style-type: none"> · Practically all of the suppliers, both in the construction phase as well as in the motorway operation, are local companies from the state of Chiapas or neighbouring states. · Impacts in terms of knowledge spillovers towards suppliers and local competitors appear to be of certain importance/relevance: (i) subcontractors have to apply the quality standards and the safety and occupational risk prevention policy of Company E, (ii) imitation by local construction companies has resulted in an improvement in their competitiveness after finding that the management approach of large civil engineering projects of Company E was much more efficient.
Local communities:	<p>The concessionary company supervised in particular the working conditions offered by the subcontractors to their workers (since the construction of Tierra de Libertad-Ocozocoautla section was carried out by subcontractors that employed workers who in their vast majority live in the area and given the vulnerability of the local population, especially indigenous people with high illiteracy, lack of knowledge of Spanish and a high percentage of rural population).</p> <ul style="list-style-type: none"> · The company faced the claim by an indigenous group of being able to freely locate their "tianguis" (handicraft markets) in open fields that are part of the right of way of the motorway, a claim that had the support of the National Commission for Indigenous People Development (under the authority of the Federal Government) and of a local association of indigenous producers and artisans. The SCT answer, as the ultimate responsible for the road, has been to <i>de facto</i> allow such activity. · Frequent occupations of the road by protesters who cut off traffic to promote political and social demands, occasionally having come to the violent occupation of the toll booths, with the consequent detriment to the concessionaire for the reduction of toll revenues which it entails, although there is a mechanism by which the SCT covers losses generated by this type of incident.
Society:	<p>The subsidiary deploys its social responsibility policy (CSR) in different areas:</p> <ul style="list-style-type: none"> (i) By complying with the conditions required by the Environment and Natural Resources Service (SERMANAT) of the Government of Mexico that seek to reduce and mitigate the negative environmental impacts produced by the construction of the infrastructure. Among these measures is the reforestation with endemic species of the region. To this end, the concessionaire inaugurated in 2012 a forest nursery with a production of 37,000 seedlings (2014). The company organises periodic reforestation days with government agencies and the involvement of indigenous communities in the area to promote environmental awareness. (ii) The operating company and the motorway maintenance company have an Integrated Management System for Quality, Safety and Occupational Health, and Environment in accordance with the ISO 9001, ISO 14001 and OSHAS 18001 international standards, externally certified since 2012. (iii) The concessionaire cooperates with different government agencies and NGOs in accident prevention and social programs (cooperation with the "Safe Easter" operative of the Government of Chiapas, with the federal programs "Welcome home, countryman" and "Amber Alert", with the Mexican Red Cross or with the Teletón Foundation that has rehabilitation centres for children with disabilities).

FDI project impact in the home country (Spain):

Competitive position:	Although Company E had extensive experience in civil works, especially in high-speed railway lines, this project was its first experience in the motorway concession area, a field in which it has subsequently grown significantly in different countries.
Crisis mitigating effect:	The geographical diversification of revenues has helped to financially mitigate the severity of the crisis experienced by the construction sector in Spain since 2008. Currently, Company E has consolidated as one of the main groups dedicated to the construction of infrastructures in Mexico, with more than 1,200 direct employees and 2,000 indirectly in that country.
Geographic diversification:	Learning in the infrastructure concession sector in Mexico has been very useful for Company E in its subsequent expansion to other countries (Peru, Romania or India) improving the criteria for the country local partners selection. Company E has started to look for local partners with significant financial capacity, capable of providing most of the capital needed, while its contribution focuses on its experience in Public-Private Partnership schemes and its capacity to efficiently manage large-scale civil work projects.
Pull Effect:	The pull effect on Spanish suppliers has been small, given the nature of the project, limited to some supplier of very specialised technical equipment (specifically, toll collection) and to the contracting of some services to Spanish engineering companies through their subsidiaries in Mexico.

Contribution to achieving the Sustainable Development Goals (SDG) by COMPANY E Subsidiary in Mexico:

Sustainable Development Goals		Subsidiary contribution (specific goal to which it contributes)
Direct contribution	SDG 1 – End poverty in all its forms everywhere	<ul style="list-style-type: none"> • Construction of the motorway with local workers (1,300 people). It supervised that subcontractors offered decent and safe working conditions (1.1 and 1.2) • Motorway operation: Stable and qualified employment creation (193 jobs) (1.2)
	SDG 3 – Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> • Significant reduction in road accidents (3.6) • Cooperation with government agencies and NGOs in accident prevention programs (3.6)
	SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	<ul style="list-style-type: none"> • Periodic training for all employees (4.4)
	SDG 5 – Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> • 22% of the subsidiary (the concessionaire) direct jobs of the two motorways are held by women (5.1)
	SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	<ul style="list-style-type: none"> • Remuneration above the average of the local market and decent and safe working conditions (OSHAS certification for the operation and maintenance of roads) (8.8)
	SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	<ul style="list-style-type: none"> • Through a Public-Private Partnership scheme, infrastructure has been financed with a high impact on regional development by improving connectivity within the state of Chiapas and neighbouring states (9.1) • Quality and environmental certified management systems, ISO 9001 and ISO 14001, for the operation and maintenance of roads (9.4) • Transfer of know-how to the subsidiary regarding the efficient management of large civil engineering projects (9.5)
Indirect contribution	SDG 13 – Take urgent action to combat climate change and its impacts	<ul style="list-style-type: none"> • Reduction of polluting emissions from vehicles due to reduced travel distance and lower fuel consumption (13.2)
	SDG 15 – Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	<ul style="list-style-type: none"> • Mitigation of the environmental impacts related to the motorway construction. Compliance with reforestation obligations established by SERMANAT. Own tree nursery (15.4)
	To all SDGs	<ul style="list-style-type: none"> • Taxes and fee payment

Note: The different SDGs specific goals (the numbering of those in which the subsidiary contributes to its achievement is specified in brackets) can be found in Table 3

Source: Authors' own elaboration

Table 3. List of concrete goals corresponding with the contributions to the SDGs of the different FDI projects studied

Sustainable Development Goals	Goal targets
SDG 1 – End poverty in all its forms everywhere	1.1. By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day. 1.2. By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.
SDG 2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture	2.4. By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
SDG 3 – Ensure healthy lives and promote well-being for all at all ages	3.1. By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births. 3.2. By 2030, end preventable deaths of new-borns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births. 3.3. By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases. 3.4. By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being. 3.5. Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol. 3.6. By 2020, halve the number of global deaths and injuries from road traffic accidents.
SDG 4 – Ensure inclusive quality education for all and promote lifelong learning	4.1. By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes. 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.
SDG 5 – Achieve gender equality and empower all women and girls	5.1. End all forms of discrimination against all women and girls everywhere.
SDG 8 – Promote inclusive and sustainable economic growth, employment and decent work for all	8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. 8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
SDG 9 – Build resilient infrastructure, promote sustainable industrialization and foster innovation	9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all. 9.2. Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries. 9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets. 9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities. 9.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and

Sustainable Development Goals	Goal targets
SDG 11 – Make cities and human settlements inclusive, safe, resilient and sustainable	11.1. By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
SDG 12 – Ensure sustainable consumption and production patterns	12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
SDG 13 – Take urgent action to combat climate change and its impacts	13.2. Integrate climate change measures into national policies, strategies and planning. 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.
SDG 15 – Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	15.4. By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development.

Source: Authors' own elaboration based on the analysis of case studies and the United Nations SDG portal:
<http://www.un.org/sustainabledevelopment/>

CROSS-SECTIONAL ANALYSIS OF CASE STUDIES

The purpose of this chapter is to offer, through the cross-sectional analysis of five case studies, a more comprehensive view on the role that FDI plays in favoring and encouraging development in host countries, as well as its effects in the home country.

The chapter is divided into two main sections. The first one analyses the contributions, in terms of sustainable development in host countries, of all the projects studied, which allows the identification of both the common and differential aspects related to the characteristics of each project. The second section analyses the effects of these projects in the home country, Spain, showing a clear relationship with the reasons that led each company to make the investment.

1. Impact of FDI projects in host countries

The individual evaluation of the different FDI projects conducted in the previous chapter highlights that they have had multiple and varied impacts on the host country development, with positive or very positive overall results, in all cases.

To facilitate cross-sectional analysis, we have grouped the different development effects into three categories, depending on their contribution to economic development, environmental sustainability, and social development in host countries. With regard to the extent of the identified development contributions, two options have been considered: \checkmark = significant effect and (\checkmark) = effect with limited impact. When determining whether a project has a significant effect or its impact is limited in a particular variable, the collated evidence gathered in the drafting of each case has been considered (written documentation, interviews with managers, corporate and branch web, press releases) complemented, where possible and relevant, with statistical data relating to the country and region.

1.1. Contributions to host countries' economic development

Table 4 shows the different project impacts on the host countries' economic development, distinguishing between the direct effects produced by the FDI project implementation and the entry into operation of the subsidiary and the indirect effects which are produced in the medium term as a result of the interaction between the subsidiary and the different local actors present in its activity field (suppliers, customers, local competitors, local business partners, regional and national governments, universities and research centres, business associations, NGOs).

- *Direct effects on economic development*

The first aspect to be highlighted from the reading of Table 4 is that all FDI projects analysed carry significant positive direct effects on the host country economic development in terms of net job creation, technology transfer and know-how to the subsidiary, and contribution to the

country's tax revenues. Such effects typically correspond to those associated with greenfield investment projects, which in our study correspond to company C (automotive components in China) and company E (toll motorway concessions in Mexico). However, the other three cases also have similar effects. Thus, the projects in which the acquisition of a local company (company A of vegetable preserves, B of calcium carbonates and D of lighting) have also carried out important investments in expanding the productive capacity or in the modernisation of the productive processes of the acquired companies. This reveals that, although short-term greenfield investments have a greater impact, in the medium and long term the impact in the country's economic development does not depend so much on the initially chosen entry mode, greenfield or brownfield, but on the business project to be implemented.

A second aspect is that three out of four projects promoted by industrial companies clearly contribute to host country industrialisation, either because they incorporate industrial processes that increase the added value of local production based on the development of natural resources (Cases of company A in Peru and company B in Mexico) or because it is an *ex novo* industrial activity (company C case in China).

A third aspect to be mentioned is that the other identified direct effects (access to new products and services by local customers and the effect on trade balance) occur in a variable manner and are linked to the promoter company's international strategy and the reason for each project. Thus, FDI projects motivated by the search for natural resources and global supply chain efficiency have a clear export orientation (companies A and B are good examples).

Table 4. Contribution to the economic development of the host country of the different FDI projects

Type of Effect and related SDG (in brackets)	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
<u>DIRECT EFFECTS</u>					
Creating local employment (SDG 1 & 8)	✓	✓	✓	✓	✓
Tax revenue of the country (SDG compilation)	✓	✓	✓	✓	✓
Technology transfer and know-how to the subsidiary (SDG 9)	✓	✓	✓	✓	✓
Country industrialisation (increase in local production added value) (SDG 8 & 9)	✓	✓	✓		n. a.
Access to new products / services by local customers (SDG 9)		✓	✓		✓
Increase exports (SDG 9)	✓	(✓)		✓ ^a	n. a.
Import substitution (SDG 9)		✓			n. a.

Type of Effect and related SDG (in brackets)	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
<u>INDIRECT EFFECTS</u>					
Local suppliers improve their quality/competitiveness (SDG 9)	✓	(v)	✓	✓	✓
Local customers improve their competitiveness (product development, cost reduction) (SDG 9)	n. a.	✓	✓ ^b		✓
Local competitors improve their competitiveness (SDG 9)		✓ ^c		(v) ^c	✓
Emergence of new local competitors (SDG 9)			✓		
Work training of the local population (collaboration with vocational centres and universities) (SDG 4)	✓		✓		
Creation or strengthening of local industrial clusters (SDG 9)	(v)	✓	✓		n.a.
Regional development induced by transport infrastructure (SDG 9)	n.a.	n.a.	n.a.	n.a.	✓

^a In the case of company D there has also been an increase in imports from the parent company, albeit of a smaller volume ^b through the divisional office and the R & D & I centre in the country ^c After a period of market share loss
 ✓ = significant effect (✓) = effect with limited impact na= Not applicable
 Source: Authors' own elaboration

• *Indirect effects on economic development*

FDI literature emphasises that the main indirect contribution to the host country's economic development is the dissemination of the technological capabilities of the multinational company through the R & D & I activities developed by the subsidiary, which contribute to building local knowledge creation capacity; the knowledge spillovers that occur in the context of its vertical (with suppliers and customers) and horizontal linkages (with local competitors); and the labour mobility of the subsidiary employees if they are hired by a local company in the same industry. In this sense, Table 4 also shows important positive indirect effects of the studied projects that deserve to be commented.

First, a common denominator is that all companies state that their subsidiary in the country has supported local suppliers to improve their quality standards and, in some cases, to jointly develop new products (company A with agricultural machinery manufacturers) or to improve the efficiency of its production processes (company C with traditional steel producers).

Secondly, the cooperation with local customers in the development of new products and/or cost reduction is observed in company B (calcium carbonates) and C (automotive components), both companies make manufactured products that are included in the final product of its

customers. In the case of company C, this cooperation occurs not through the subsidiary (production plant) but the Asia divisional office and the R & D & I centre in Shanghai. Likewise, the availability of new highways or the improvement of existing ones allows the reduction of travel times for their users and lower freight transport costs (company E).

Thirdly, by having a foreign competitor in the local market entails a 'demonstration effect' which encourages the emergence of new local competitors (case of company C in China). Likewise, the presence of a foreign competitor with greater technological capacities in the same market space translates into a greater competitive pressure that, in the short term, may entail a loss of market share by local competitors (case of companies B in Mexico and D in Poland) but, in the medium term, encourages an improvement in the technological capabilities and competitiveness of these companies.

Fourthly, it should be pointed out that the subsidiaries with the largest number of employees (cases of company A in Peru and C in China) regularly cooperate with local vocational training centres and universities through internship programs and training sessions, which allow them to have better access to qualified local staff while contributing to the job training of the students of these centres.

Finally, it is pointed out that three out of five projects make important contributions to local and regional development. On one side, the subsidiaries of companies B (calcium carbonates) and C (automotive components) contribute to reinforce the respective industrial clusters of their region, counting with the support of the public administrations as they are priority sectors for each country's industrial policy (Mexico and China, respectively). On the other side, company E project shows the important positive effects that the availability of modern transport infrastructure has on local and regional development, by removing bottlenecks that hinder economic growth and favour intra and inter-regional connectivity.

It should be noted that contributions to the host countries' economic development in the five cases studied affect SDG 1 (SDG 1 – to end poverty through job creation, especially in low income areas), SDG 4 (quality education, through collaboration with local vocational training centres and universities) and in particular SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure), which concentrate most of the contributions mentioned in Table 4. The highest tax revenues generated by the different FDI projects allow different government levels to provide greater public resources to develop policies related to all the SDGs.

1.2. Environmental sustainability of FDI projects

A comprehensive development perspective requires to include the analysis of the environmental sustainability of each FDI project. Table 5 summarises the actions that the parent company and the subsidiary have implemented to ensure that the project is environmentally sustainable.

Table 5. Actions to ensure the environmental sustainability of the different FDI projects

Type of action and related SDG (in brackets)	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
Transfer of international standards in environmental and industrial safety management (SDG 12)	✓	✓	✓	✓	✓
Transfer of more sustainable technologies (SDG 12)		✓	✓		
Compensating measures for irreversible environmental impacts (in the event of those happening) (SDG 15)	n. a.	✓	n. a.	n. a.	✓

✓ = significant effect (v) = effect with limited impact n.a.= Not applicable

Source: Authors' own elaboration

On one hand, it should be noted that in the five cases studied, the subsidiary in the host country applies the international standards for environmental and industrial safety (ISO 14001) (case of companies B, C, D and E), or their equivalents in the agri-food sector (case of company A) related to food safety and environmental preservation (IFS and BRC Food Safety certificates).

Furthermore, all projects involving irreversible environmental impacts, associated with mineral extractive activities (case of company B) or the construction of motorways (case of company E), comply with local legislation requiring the adoption of compensatory measures to repair the loss of soil and vegetation cover, the most important being the replanting of native species trees. It should be noted that the above aspects constitute requirements demanded by COFIDES for its involvement/participation in the financing of investment projects abroad.

It should also be noted that in two out of four industrial projects, the technology transferred to the subsidiary introduces very important aspects in terms of sustainability. In the case of company B it is a capture system inside the plant for the particles generated in the industrial process and in case of company C these are innovative automotive manufacture components technologies (hot stamping) that contribute to the fact that cars are less polluting, safer and that at the end of their useful life the components are 100% recyclable.

Finally, it should be noted that the transfer of both environmental management capabilities, which occur in all cases, and more sustainable production technologies directly affect SDG 12 (responsible consumption and production), while the adoption of compensatory measures of irreversible environmental impacts, when those occur, contribute to life preservation of terrestrial ecosystems (SDG 15).

1.3. Contributions to social development in host countries

In the cases studied, the contribution to social development in the host country occurs mainly through employment and supplier relationship policies, to which the social action policies implemented by the subsidiary must be added – where applicable - as shown in Table 6.

- *Employment policies*

Employment policies constitute the qualitative dimension of job creation and allow the evaluation of the “quality of employment” generated.⁴ In all cases, the executives interviewed stated that the company offered the employees of the subsidiary under study: decent wages (generally above average for the sector and local companies of similar size), job stability, adequate working conditions (four out of five subsidiaries studied have certified health and safety management systems), periodic training, and internal promotion opportunities.

From the above it can be deduced that the analysed FDI projects have created quality employment. The social impact of job creation has been enhanced when in the area where the subsidiary is located a large part of the jobs are in the informal sector of the economy. Thus, by providing greater security and stability to their income, these employees have greater personal autonomy by being able to better plan their consumption decisions and give them the possibility of accessing to credit (the case of company A in Peru is very illustrative). It is also worthwhile highlighting in the case of Company D in Poland the non-discrimination dimension and inclusion of groups with greater difficulty in accessing the labour market (people with different degrees of slight disability), which also occurs in an area with high levels of unemployment.

An important dimension of employment policies refers to the creation of female employment, insofar as it contributes to the promotion of gender equality (SDG 5). In order to be able to assess this dimension, even in a very rough way, we must take into account: (i) the significant differences between countries in the level of women’s insertion in the labour market, largely related to the degree of economic development and socially dominant values in each country; and (ii) the significant differences between sectors, since women and men are often hired to work on different types of tasks and female employment tends to be concentrated in certain sectors of activity.

4 In his study on the quality of employment in Spain, Arranz, García-Serrano and Hernanz (2016) define job quality as “a multidimensional concept that covers four main dimensions: socioeconomic security (decent wages, job stability and safe transitions); working conditions (intrinsic quality of work and health and safety); opportunities for improvement (qualification and training); and work and life balance” (page 55).

Table 6. Actions contributing to the host country social development

Type of action and related SDG (in brackets)	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
Quality employment in the subsidiary (SDG 3 & 8)	✓	✓	✓	✓	✓
Employment of people with functional diversity (SDG8)				✓	
Female employment in the subsidiary (SDG 5)	✓	(v)	(v)	(v)	✓
Demands respect for human rights in the workplace to suppliers and subcontractors (SDG 1)	✓	(v)	✓	(v)	✓
Generation of opportunities for small producers and local SMEs (SDG 1)	✓				(v)
Direct support to NGOs and governments in the areas of health, education, local infrastructure improvement and community development (SDGs 3, 4, 6 & 11)	✓	(v)	(v)		(v)

(v) = significant effect (v) = effect with limited impact

Source: Authors' own elaboration

Table 7. Contribution to the promotion of gender equality (SDG 5) of FDI projects

Concept	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
<u>FEMALE EMPLOYMENT IN THE SUBSIDIARY</u>					
Female employment over total employment (percentage)	45%	10%	16%	20%	22%
Female over male employment ratio	0.81	0.11	0.18	0.25	0.28
<u>CONTEXT OF THE SUBSIDIARY</u>					
Female over male employment ratio in the country (2014)	0.81	0.56	0.82	0.75	0.56
Area with a strong informal economy and/or poverty levels	yes	no	no	no	yes
Gender Inequality Index 2014 (rank out of 188 countries)	0.406 (82)	0.373 (74)	0.191 (40)	0.138 (28)	0.373 (74)
ASSESSMENT CONTRIBUTION SDG 5	✓	(v)	(v)	(v)	✓

✓ = significant effect (v) = effect with limited impact

Source: Authors' own work based on case studies, statistics from the International Labour Organisation and UNDP Human Development Report 2015.

Table 7 shows data on the importance of female employment in the subsidiaries of the companies studied together with data from the country, on the basis of which its contribution

to the gender equality promotion has been estimated (SDG 5). The cases of companies A and E stand out, both in terms of the amount of female employment created (especially company A) and the socio-economic context in which the two projects⁵ are located.

- *Supplier relationship policies*

With regard to supplier relationship policies, two types of actions have been identified that produce positive impacts in terms of the social development in the host country.

The first action concerns the requirement that local suppliers and subcontractors respect human rights in the workplace, as set out in the International Labour Organisation (ILO) conventions, including inter alia, the elimination of child labour and forced and compulsory labour, non-discrimination in employment, or respect for freedom of association. This is a particularly sensitive aspect when the investment project is located in areas with high levels of poverty, illiteracy and social exclusion, where child labour can be relatively widespread in society. These risks were especially present in the case of company E, specifically in the start of the construction phase of the motorways in southern Mexico. According to the interviews that were undertaken and the documentation that was consulted, the requirement that local subcontractors respect the labour rights of their workers has also been accompanied by periodic inspections by the concessionaire. It should also be noted that in certain cases, COFIDES requires that the project company has specific policies in place to avoid such risks.

The second type of actions refers to the generation of opportunities for small producers and local SMEs, wherever feasible. Opportunities of this type have been generated in two of the five cases studied. One of them is the Peruvian subsidiary of company A, in which the raw material supply for one type of vegetable preserves, namely artichokes, comes from local producers. In the other case, the generation of opportunities has a certain involuntary nature, we refer to the "tianguis" or indigenous handcraft markets that are temporarily installed in open fields alongside the motorway that form part of the concession, and that are *de facto* permitted by the granting administration and by the concessionaire (case company E).

5 As a point of reference, in the Spanish economy as a whole, the total percentage of women employed over the total number of men employed averaged 84% in 2013 according to the Active Population Survey (MSSSI, 2014). On the other hand, there is a feminisation of employment in a large part of the services sector and in administrative tasks, whereas the opposite is true in sectors such as manufacturing, agriculture, transport, extractive industries and construction. With respect to the latter, the proportion of women to men in the employment of agriculture and manufacturing was around one woman for every three men (ratio = 0.33) (MSSSI, 2014). The value for Spain of the Gender Inequality Index prepared by the UNDP (2015) was 0.095 in 2014, and the country ranked 16 out of 188 countries.

- *Social action policies*

As for social action policies, in four out of five cases studied (companies A, B, C and E), the subsidiaries linked to the FDI projects report different actions, whether directly providing support services or supporting NGOs and local governments, in one or more of the following areas: health, education, local infrastructure and community development. In this sense, the three largest project companies (specifically A, C and E) have explicit social responsibility policies and one of them is a signatory to the Global Compact. Due to its impact on social development, the case of company A (Peru), which focuses on the families of the workers and the local communities nearby, deserves to be highlighted.

In summary, the FDI projects analysed positively contribute to the social development of the host countries, as they all contribute to multiple SDGs, in particular, SDG 8 (promote inclusive and sustainable economic growth, employment and decent work for all), SDG 3 (ensure health and well-being through the implementation of health and safety management systems in the workplace), SDG 1 (eradicating poverty through requiring suppliers and subcontractors to respect human rights in the workplace as well as the creation of opportunities for small local producers) and to a greater or lesser extent to SDG 5 (gender equality promotion through the creation of female employment). More selectively, contributions to SDG 3 (health and well-being), SDG 4 (quality education), and SDG 11 (sustainable cities and communities) have also been identified through direct actions or support to local health, education, local infrastructure improvement and community development programs promoted by NGOs and local governments.

2. FDI projects impact in the home country

FDI has effects not only in the host country but it also carries important consequences in the country of origin of the investing companies, both at a macroeconomic level, in the overall economy, as well as at the microeconomic level, in the businesses themselves. Given the nature of our study, we will focus on the microeconomic effects observed in the different case studies, which are summarised in Table 8 below⁶.

6 At the macroeconomic level, some studies have analysed the effects of foreign direct investment on the economic growth and exports of the Spanish economy, concluding that these are positive as a whole. See, for example, Durán-Herrera et al. (2007): "Inversión directa en el exterior, crecimiento y exportaciones de la economía Española" [Direct foreign investment, economic growth and exports of the Spanish economy], ICE Magazine, n° 839, pp. 35-54.

Table 8. Effects of the different FDI projects in the country of origin

Type of Effect	Primary and Industrial Sector		Industrial Sector		Infrastructure Concession
	Company A (Peru)	Company B (Mexico)	Company C (China)	Company D (Poland)	Company E (Mexico)
Does not negatively affect the level of productive activity or employment in Spain	√	√	√	√	√
Pull effect on exports from the promoter company to subsidiary				√	
Pull effect on exports from other companies (capital goods)	√	(√)	√		(√)
Assurance of supply	√	√			
Development of new capacities as a result of the FDI project	√	√			√
Reverse knowledge transfer from the subsidiary to the head office				√	
Positive image of the country of origin in the host country ("Spain's Brand")	(√)	√	√	(√)	√

√ = significant effect (√) = effect with limited impact

Source: Authors' own elaboration

2.1. Common effects of the different case studies

The five analysed projects share three common features in terms of their effects in the home country. First of all, no negative impacts have been detected on production or employment levels in Spain. In two of the cases studied, the only internationalisation option is to have a physical presence in the market where the good or service is consumed, either by customer requirements (just-in-time supply in the automotive sector, Company C) or by the nature of the service (motorway concessions, case of company E). In two other cases, even when exports are possible, the previous volume was very low due to high logistics costs (calcium carbonates, company B) or there were noticeable differences in price levels and local customer preferences (lighting products, company D). Lastly, in the case of company A, the cultivation and production of canned vegetables were taking place in China since the late 1990s.

Secondly, there is a certain pull effect on Spanish exports in all cases, albeit with varying degrees of intensity. In the case of company D, the gradual integration of the Polish subsidiary with the rest of the group companies in the marketing area is resulting in the commercialisation by that subsidiary of certain product lines manufactured by the parent company in Spain. In the remaining cases, these are exports by Spanish manufacturers of machinery and equipment

destined to the subsidiaries of companies A, B and C or to the toll collection systems on motorways for the concessions of company E.

Thirdly, there is also a certain positive effect, although more difficult to quantify, in terms of the home country's image (what we commonly call "Marca España" [Spain's Brand]) in the host country. On one side, the ownership of a Spanish group is shown on the subsidiary website (all cases). Furthermore, in two out of four cases of industrial establishment, support has been provided by local authorities (company B in Mexico and company C in China) and has led to significant investment and job creation (especially in case C), without a doubt contributing to giving a positive image of Spanish companies and of Spain as a technologically advanced country. Likewise, the motorway concession project (company E) obviously entails a high visibility of the home country of the company that was awarded the tender before the concessionary public administration and, to a lesser extent, before the host country's public opinion.

2.2. Effects according to the motivation of FDI projects

The remaining identified effects in the home country are associated with the promoter company's international strategy and, specifically the motivation for making the investment.

- *Search for natural resources*

As for the projects motivated by the search for natural resources to supply markets in other countries, several effects associated with the nature of this type of investment have been identified.

The most important aspect, from a strategic perspective, is the *securing of a supply of quality raw materials* in locations that enjoy clear comparative benefits, which contributes to reinforcing the competitive position of the company in the Spanish market (case of company A) or to allow competitive access to other markets (the US in the case of Company B). The fact that both companies use a vertical integration strategy and proceed to the industrial transformation of the raw material in the same place of their cultivation or extraction, has had a pull effect, of a certain entity, on the Spanish machinery manufacturers. Lastly, it should be noted that in the case of company A there is also an effect of developing new technical capabilities as a consequence of the chosen location, namely, experimentation with new varieties of seeds adapted to existing climatological conditions and soil characteristics in that part of Peru.

- *Search for access to local markets*

As for the projects motivated by seeking access to local markets of manufactured products, one of the possible risks is that direct investment involves a reduction of exports from the country of origin, however in the cases studied this effect did not occur. Besides the non-

substitution of exports and the pull effect on Spanish machinery manufacturers (Case B and C), an effect typically associated with this type of investment was also observed, such as the development of new technical capabilities, especially when the company enters more technologically advanced markets. Thus, company B has developed new qualities of calcium carbonate, used as raw material in the production of polymers, to respond to the demand of its North American clients. Finally, in the case of company D two additional effects have been identified. On one hand, the complementarity between exports and direct investment, since the direct presence in Poland is reinforcing exports to that country, and on the other, the reverse transfer of technology and know-how from the subsidiary to the parent company, in this case, referred to the inclusion of a new highly specialised product line, lighting for hospitals and clean rooms (although this latter effect corresponds typically to investment projects motivated by the pursuit of strategic assets).

- *Search for access to public works markets*

As for the projects motivated by searching for access to public works markets through Public-Private Partnership agreements, several effects have been identified in the home country associated with the nature of this type of investment.

Firstly, the analysed FDI projects have helped to mitigate the severity of the crisis experienced by the civil works sector in Spain since 2008, whilst at the same time serving as a bridgehead and a platform to consolidate the presence of company E in a market that it considered strategic for its future (bringing not only greater potential for growth but also more stable and recurrent revenue streams).

Secondly, it is necessary to emphasise the important learning effect in relation to the granting administration and with the different stakeholder groups, with interaction patterns in some cases quite different from those of Spain, experience that is considered very useful and valuable to enter in similar countries.

Thirdly, the pull effect on Spanish suppliers is very limited given the very nature of investment and activity.

Finally, the involvement of Spanish companies in this type of projects, as stated above, has a great visibility to the government and the society of the host country and, therefore, affects the "Spain's Brand". The feedback received points to a positive image, both in the construction phase and in the commercial operational phase of the infrastructure. However, during the construction phase is when there are greater risks of negative impact on the company reputation, and therefore on the image of the country from whence it came, if there are significant delays with the construction deadlines, with the consequent inconvenience for users and potential increases in the accident rate on the way.

CONCLUSIONS OF THE STUDY

The conclusions of the study are structured in two sections. In the first one, we propose a conceptual model about the relationship between FDI and sustainable development based on the findings of the cross-sectional analysis of the case studies. Unlike conventional models that are focused on the FDI project characteristics, the proposed model explicitly incorporates the organisational dimension of the multinational company, placing the subsidiary in the host country as the most appropriate unit of analysis to understand (and therefore evaluate) what kind of effects on development its activity has. In the second section, the implications of the study from the promoting companies' perspective and their country of origin are introduced, highlighting the role of international companies as key players to promote development, and presenting the advantages for these companies to be responsible investors and to adopt pro-development approaches.

1. A conceptual model on the relationship between FDI and sustainable development

In the previous chapter we have focused on the different contributions that the studied FDI projects make to the host countries' sustainable development. In this section, the focus of the analysis is on understanding how such contributions have occurred and why they vary from one case to another.

Both academic literature as well as the different international agencies (eg. UNCTAD, OECD or ECLAC) emphasized that from a development perspective, for a host country the quality of foreign direct investment is as or more important than its amount, an aspect that is reflected in paragraph 36 of the Addis Ababa Action Agenda (July 2015) in which the development of public policies and regulatory frameworks that encourage the private sector to "adopt sustainable practices, and foster long-term quality investment" is suggested.

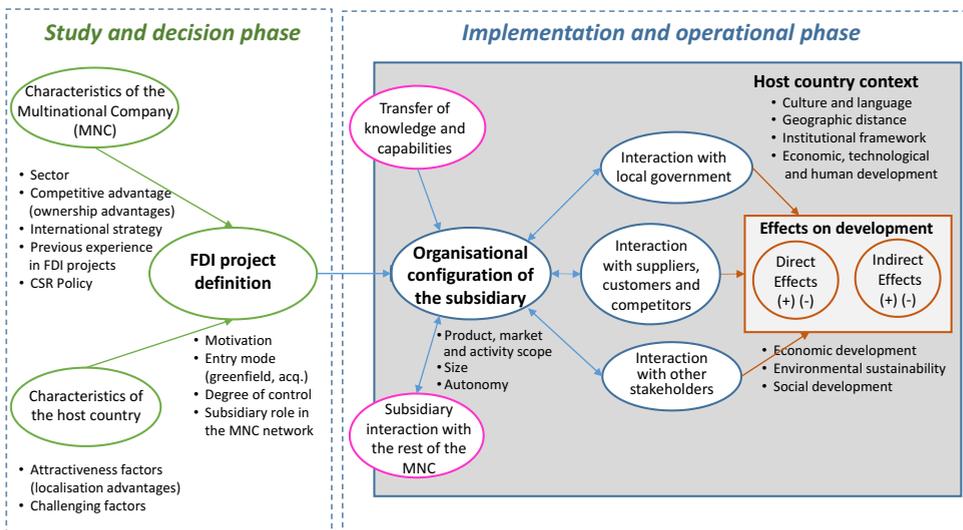
From the sustainable development perspective, FDI quality is nowadays related to: (i) the will of the investing company for a long-term permanence in the host country; (ii) its interest in linking or creating linkages with the local economy – that leads to improve productivity through the transfer and dissemination of their technological capabilities and management practices; and (iii) to develop its activity with economic, social and environmental sustainable criteria. Thus, the FDI quality concept appears closely related, on one hand, with the business strategy and the motives that lead companies to locate part of their operations outside their home country and, on the other, with their social and environmental responsibility policies.

The motivation of the investment, the choice of entry mode, the degree of control and the involvement or not of local partners, as well as the promoter company's CSR policies are

variables that enable the identification in an approximated way of the expected effects in terms of sustainable development of a specific FDI project, hence development finance institutions (DFIs) normally consider them in their *ex ante* evaluation process of projects susceptible to receive their support. However, these variables are not enough on their own to explain to what extent the expected contributions do actually occur (*ex post* perspective), therefore we must incorporate other variables related to the multinational enterprise's organisational aspects as well as to the context of the host country.

In this sense, one of the advantages of this research is that the studied cases refer to projects that have been in operation between three and seven years. This has allowed us to identify with greater certainty the processes through which these companies make a positive contribution to the sustainable development of the countries in which they have invested. Both the individual case analysis and the cross-sectional one carried out in the previous chapter highlight the importance, on one hand, of the type of subsidiary that is established and the activity it deploys, especially its interaction with the different stakeholder groups, and on the other hand, the characteristics of the host country. Figure 2 shows the conceptual model resulting from these analyses and synthesises the variables which, from the authors' point of view, explain the distinctive contribution to the host country development of the considered FDI projects.

Figure 2. Conceptual model of the impact of the multinational company activity on the sustainable development of the host country



Source: Author's own elaboration

The proposed model distinguishes two main phases: i) the study and definition phase of the FDI project until its approval by the promoter company, and (ii) the implementation phase of the project and operation of the new subsidiary in the country.

The first phase refers to the factors that determine an FDI project, which have been fully studied in the literature. In particular, companies develop direct investment projects in a country when they have competitive advantages (generally referred to intangible assets such as technology, know-how, recognised trademarks or business management capabilities) that can only be properly exploited through direct investment (since export options, licensing or local outsourcing are not feasible or have high transaction costs) and to do so they choose those countries that offer certain localisation advantages, depending on the objective pursued by the investment. In summary, the characteristics of the investing company in conjunction with the characteristics of the host country allow us to explain the main characteristics of the FDI project.

Of the case studies analysed, the promoter company's most relevant characteristics that have been identified are: the activity sector and its degree of globalisation, the nature of its competitive advantage, its international strategy, its previous experience in FDI projects and in the host country in particular, and its CSR policy.

With regard to the characteristics of the host country, the following have been identified as more relevant: (i) in general, culture and language, the geographical distance from the parent company, the institutional framework, and the economic, technological and human development level; (ii) specifically, free trade agreements, foreign investment policy and its relation to industrial policy, as well as sectoral regulations; and (iii) the localisation advantages related to the company's international strategy and its motivation to locate value-adding activities in the country (e.g. market size and medium-term growth prospects for projects that seek access to markets, or competitive advantages in quality and cost for projects seeking access to natural resources). Note that both the general and sector-specific characteristics of the host country will be valued by the company, as the case may be, as *elements of attractiveness or difficulty*.

As for the FDI project characteristics, four were considered to be most relevant from a development perspective: the investment motivation, the entry mode (either a greenfield project or a local company acquisition), the degree of control over operations (wholly owned, shared property or joint-venture), and the role assigned to the new subsidiary in the multinational's subsidiary network (fully autonomous operations, integrated operations in the company's global strategy with a high level of coordination and centralisation in decision-making, autonomous operations with certain coordination elements).

In the implementation phase, the unavoidable organisational dimension of any FDI project is highlighted, since its materialisation involves either the creation of a new company in the country or the acquisition of a local company or the expansion of an existing subsidiary. In all cases, and

especially in the first two, the multinational company has to decide whether its new subsidiary will specialise in a product line or will offer a more or less broad range, to which markets it will focus on (local, international, or both), or whether it will specialise in a particular activity of the value chain (e.g. production, logistics, marketing or R & D) or will combine several activities (e.g. production, marketing and development of new products). In other words, decisions regarding the product scope, the market scope and the activity scope are key to configuring the type of subsidiary desired. The above decisions will, in turn, determine what knowledge and organisational capabilities should be transferred to the new subsidiary, the support that it must receive from other subsidiaries and the parent company in order to carry out its operations, as well as the degree of autonomy of the subsidiary for decision-making on its operations.

Out of the five cases studied, company A (agri-food sector in Peru) is the one that best illustrates the difference between the investment (the acquisition of a company) and the desired subsidiary configuration, as evidenced by the important strategic reorientation of the acquired company. The objective of the FDI project was to make the Peruvian subsidiary one of the main production centres for canned asparagus. The new subsidiary configuration required therefore, to change the product scope (from a fresh, perishable and a seasonal demand based product, to a canned product), the destination market of production (from several export markets to a single one, Spain) and the activities of the value chain (adding the canning stage, which implied important additional investments in facilities and machinery). Given its production-based role, the Peruvian subsidiary was seamlessly integrated into the global strategy of the company, maintaining a broad and continued relationship with the R & D and commercial (key accounts) corporate departments, both located in the parent company.

A key aspect, particularly in the initial implementation phase, is that the parent company is able to transfer and the subsidiary to effectively absorb the key knowledge and capabilities required by its configuration, including those related to CSR policies.

In the case studies, several enablers have been identified concerning the motivation and ability of the parent company to transfer key knowledge, including: i) full ownership of the subsidiary (as opposed to shared ownership with a local partner) stimulates a greater commitment and investment in the development of capabilities; ii) the availability of technicians and managers with international experience willing to be expatriated (cases of companies A, B and C); iii) systematisation and documentation of the knowledge to be transferred, facilitated by the use of externally certified quality, health and safety, and environmental management systems (in all cases); and iv) previous experience of other FDI projects (companies A and D), let alone having branches in the country itself, which allows it to carry out the transfer process more efficiently and faster (company C in China).

Regarding the enablers relating to the absorption capacity of the key knowledge and adoption of management practices of the parent company by the subsidiary, it is worth mentioning: i) sharing the same language, Spanish (companies A, B and E) or having a common working language,

English, which allows smooth communication between the subsidiary management team members and the parent company (company D); ii) geographical proximity that facilitates frequent trips, and even allows the parent company to avoid staff expatriation (company D); iii) when the subsidiary is the result of the acquisition of an existing company, knowing how to motivate and retain most of the local management team from the beginning is a key success factor, as these managers facilitate the knowledge of the country's reality, the absorption of the technology and know-how transferred, and reduces the need for expatriates (companies A, B and D); and iv) likewise, when the human resources policies of the subsidiary are oriented to the new hiring of personnel with adequate qualification and to the development (training programs) and motivation of the same (link between learning and recognition, professional development opportunities).

From the host country development perspective, the key question is *what type of subsidiary is being created and how it will evolve over time*. The decisions regarding the subsidiary configuration determine to a great extent the linkages that it will develop with local businesses in the host country and with the different levels of government. The applied CSR policy and the degree of autonomy of the subsidiary allow us to explain the actions carried out by the subsidiary to manage the non-financial risks associated with its activity as well as to ensure that a positive contribution is made to the country (e.g. respect for human rights in the work environment from the suppliers, industrial safety and environmental management, anti-corruption, impact on vulnerable local communities) and the nature of the interaction of the subsidiary with different stakeholder groups.

The direct effects on the host country development, analysed at the beginning of this chapter, start to materialise since the establishment and entry into the operational phase of the new subsidiary, especially when new investments are made in tangible assets along with net job creation (in the case of greenfield projects or acquisitions followed by major investments in modernisation and expansion of the productive capacity). However, it will not be until the new subsidiary is fully operational and succeeding as a business, that the direct effects on development will be manifested with all their intensity.

Moreover, the indirect effects on development occur in the medium and long term and are the result of the *continuous interaction* between the subsidiary and the different stakeholders. Firstly, the groups that make up the subsidiary's operating environment: employees, suppliers, customers, local competitors, and local partner(s). Secondly, the different government levels involved in the FDI project that can play a leading role not only in its implementation but also in the subsequent development of the subsidiary through their industrial and FDI policies (cases of companies B and C). And thirdly, the remaining stakeholders among which we find universities and research centres, vocational training centres, business associations, local communities and NGOs.

In two out of the five case studies, company B (calcium carbonates) and D (lighting), the subsidiary adopts a broad configuration in terms of product lines and value chain activities (production,

commercialisation and new product development). This translates into an intense interaction with local companies (suppliers, customers and competitors) and in the case of company B, also with the science and innovation system of Mexico. Due to this greater involvement or *external embeddedness*, these subsidiaries have been able to innovate in product terms (company B) or in forms of commercialisation (company D) and to develop local innovation capabilities, counting on the parent company support. Likewise, the success of both subsidiaries has led to their role in the company being strengthened (the construction of a new plant by the subsidiary of company B oriented to export to the US) or to expand its activity scope (subsidiary of company D which, in addition to Poland, becomes responsible for the development of the German market).

In the remaining three case studies, the subsidiaries have a much more specialised role or mandate which is reflected in their organisational configuration. In this regard, it is important to differentiate between industrial companies and infrastructure concession companies.

With regard to companies A (vegetable preserves) and C (automotive components), their subsidiaries in Peru and China, respectively, are exclusively focused on production activities, while commercialisation and R & D & I activities are carried out by the head office (company A) or the regional office in Shanghai (company C). As a result, the stakeholders with whom the subsidiary interacts is quite limited, basically suppliers and local public administrations, to which vocational training centres and universities must be added (case of company C) and nearby communities (case of company A). The high integration and degree of interdependence with the activities developed by other units of the multinational company (*internal embeddedness*) and the limited degree of connection with local actors (low external embeddedness), explain why the development of capabilities by these subsidiaries is very much constrained to its area of specialisation, so that spillovers of knowledge to the local companies are limited to the suppliers and to the potential mobility of the employees of the subsidiary. This does not mean that, through an active social policy aimed at the employees families and the nearby local communities, company A, makes a significant contribution to community development.

As far as infrastructure concession companies are concerned, they are specific-purpose companies, created solely and exclusively for the construction and subsequent operation of a particular infrastructure⁷. On one side, in order to achieve an adequate allocation and control of the risks associated with the project, the concessionary company typically signs contracts for the construction, maintenance and operation of the infrastructure with different companies.

7 Given the commercial and financial risks assumed by the concessionaire, the financial entities that contribute to the bulk of the funding for the construction of the infrastructure want to ensure that the revenues generated by the concession will be used to return the loans received and to cover the operating costs, so that cross-subsidies cannot be given to other projects. The establishment of a special purpose company is an effective way of providing such a guarantee.

In this sense, the integration degree of the concessionaire with other subsidiaries of the company that leads the consortium (internal embeddedness) may vary, but in no case is high, just like what happens with the interaction degree with local actors (external embeddedness). That is to say, that the contribution to development made by the concessionaire companies is mainly focused on enabling the country to have the infrastructure and possible spillovers of knowledge during the construction period of the work. While in the operational phase, spillovers of knowledge that may occur are much more limited.

The last variable of the conceptual model refers to the host country context that is paramount in the implementation phase by either facilitating or hindering: (i) the knowledge and capability transfer from the parent company to the subsidiary, (ii) the development of its operations, (iii) the interaction with different stakeholders (which at times may be very different from what the company is used to in the country of origin), and (iv) spillovers of knowledge to local firms, which are hampered when the technological gap between the multinational company and the local companies is very wide. In this sense, the greater the differences between the context of the country of origin and the host country, and the lesser the previous experience of the company in the country or similar countries, the greater will be the time and adaptation costs for the company which will presumably reduce its potential contribution to the country development, at least in the initial phase.

The proposed conceptual model, which synthesises the results of the analysis of the five case studies, reveals: (i) that the effects on the country's development are generated in the implementation phase of the FDI project by the subsidiary in the country; (ii) that these effects occur largely as a consequence of the organisational configuration of the subsidiary and the role assigned to the subsidiary within the multinational company, which determines its degree of interdependence with the other subsidiaries (internal embeddedness); (iii) that the subsidiary's impact on the sustainable development of the country is amplified or reduced according to the CSR policies implemented and the intensity and quality of the interactions that the subsidiary maintains with the different stakeholders, especially with the local businesses and government (external embeddedness); and (iv) the importance of the time dimension in any analysis of the FDI effects on the host country development, since much of the indirect effects require a certain time to materialise, which in turn supposes the permanence of the investor at least in the medium term.

In summary, the conceptual model presented, indicates that in order to understand the mechanisms that explain the FDI effects on the development country it is necessary to carry out a multi-level and multi-factor analysis, considering both, the promoter company's international strategy and the FDI project motives (perspective of the parent company) and the organisational configuration of the subsidiary and its interaction with different stakeholders in the country (perspective of the subsidiary and local stakeholders).

2. Implications for promoting companies and their home country

- *The International company, a key player for development*

The cross-sectional analysis of the different case studies carried out in the previous chapter reveals that the company is a key “development actor” with the capacity to contribute, through direct investment and the business activity of its subsidiaries, to the development of host countries, especially developing ones.

It is important to highlight that, to a large extent, such contributions are directly related to the activity of the company and the way in which it is carried out, confirming the importance of international companies and FDI flows as mechanisms not only to finance but also, and most importantly, to promote development.

The literature on economic development shows that foreign investment tends to have, in the presence of certain conditions related to the country’s context, globally positive effects on the development of the host country, although it may not be exempt from less positive effects. It is up to governments and also companies, to maximise the former and to reduce the latter. In this sense, in three out of the five case studies, the respective governments - through public-private partnership agreements and industrial and FDI policies - have played an important role in amplifying the contribution to the development of the projects analysed (Companies B and E in Mexico and C in China). Also, an important characteristic of the analysed projects is that in all cases, investing companies have adopted, with varying degrees of intensity, a “*pro-development*” approach.

Following Varela (2012, p27), we define as “pro-development” those approaches in which the company seeks that its activities have a more favourable impact on the local environment in terms of sustainable development. This requires a *voluntary and deliberate action* by the company to reduce or eliminate the negative impacts and improve the positive ones, which can involve making minor changes through to making significant alterations to the company business model.

The analysis on how the subsidiaries of the studied companies carry out their activities in the host countries reveals a number of common characteristics, some of which are evidenced by the adoption of “pro-development” approaches. These characteristics can be summarised as follows:

- *The company invests in the country with the intention of staying in the medium to long term.* The prospect of a long-term relationship increases the company’s commitment to the country’s sustainable development, since it wants to be welcomed and if the country prospers it will also benefit the company. Moreover, such a time perspective is a necessary condition for the investor to assume the important costs of transferring the key knowledge and organisational capabilities to the subsidiary in the country.

- *The subsidiary contributes to the updating of the the host country's industrial sector by promoting the development of local technological capabilities.* Firstly, this is achieved through direct investment and the transfer of technology and capabilities from the parent company to the subsidiary, including the implementation of its business model and corporate management practices, with the adaptations required by the local context. Secondly, there is a transfer of technology to the local companies as a result of certain decisions and actions of the company, such as the joint ownership of the subsidiary with a local partner, the requirement of -and at the same time- the support to the local suppliers to achieve the highest quality standards, the supply to the local market of technologically advanced products, the joint development with local customers of products tailored to their specific needs, locating R & D activities in the country and cooperating with universities and research centres, or taking part in business forums and working groups promoted by the host country government to discuss the policies to be applied in the sector. Finally, the presence of a new company in the local market tends to have an energising effect on competition, stimulating local companies to modernise in order to adequately compete. In addition, such presence can contribute to the strengthening of an existing industrial cluster, which has even greater effects on local economic development.
- *The company's subsidiary creates quality employment and deploys human resource policies aimed at developing local talent.* As revealed, the creation of net stable employment, with decent wages and adequate health and safety conditions, has a positive social impact, especially when it involves the significant creation of female employment and/or occurs in areas where informal employment prevails or there is a high level of unemployment. Moreover, the HR policies orientation to attract, motivate, develop and retain local talent appears as a necessary condition to achieve an effective transfer of the key knowledge and of the corporate management practices to the subsidiary on which the company's competitive advantage is underpinned.
- *The activities of the subsidiary are carried out with environmental sustainability criteria,* implementing policies and management systems aimed at preventing negative impacts on the environment and, in the event of occurring, these will be corrected or, if not, mitigated when they are irreparable (in the case of extractive activities or the construction of large infrastructures). It is important to stress that in the cases studied the policies and the environmental management systems are the same for the different company subsidiaries, although the regulations in some countries may be less demanding.
- *The subsidiary responsibility is not confined to the activities that it directly carries out. It extends to its sphere of influence (relations with suppliers, sub-contractors, customers and public administrations),* ensuring that the company does not benefit from practices that may infringe human rights in the workplace, endangering the health of workers,

damaging the environment or be linked to acts of corruption. In certain sectors, such as agribusiness or infrastructure construction, FDI projects can be located in areas with high levels of poverty and illiteracy and social marginalisation, where the risks of being complicit with practices that violate human rights or seriously harm the environment are especially present. In the cases studied, companies not only have explicit policies to avoid them, but also allocate resources to verify compliance of them.

- *The subsidiary, either directly or through NGOs and local governments support, carries out actions aimed at improving the living conditions of nearby local communities.* In the cases studied, it is the larger enterprises that make a more systematic effort focused on workers and their families in the areas of health and early childhood education. Another action with a potentially high impact refers to the generation of opportunities for small producers and local SMEs, which has occurred in two of the cases studied.
- *The company incorporates environmental sustainability and social responsibility aspects, both in its subsidiary and in its sphere of influence, from the definition phase of the FDI project.* As a result, the company is able to identify, in advance, the most significant non-financial risks that could jeopardise the viability of the project and damage its reputation and consequently adopts policies and measures to prevent them. It is interesting to note that in the cases studied the main non-financial risks could be anticipated, to a large extent in the project definition phase and this was in fact done, while the opportunities to improve the impact on local development were identified *in situ*, in the implementation phase, based on interaction with the different local stakeholders (NGOs, universities and vocational centres, government agencies). The subsidiary's organisational configuration, along with the profile and initiative of its managers, explain the type of opportunities identified in the cases studied.

In this context, attention should also be drawn to the role played by COFIDES stimulating companies to adopt pro-development approaches in their FDI projects. COFIDES requires that for it to be involved in the long-term financing of a project, that the project complies with both local regulations and international standards with regards to the respect for human rights in the work environment, occupational health and safety, environmental protection and fight against corruption. This encourages companies to broaden their perspective on the impact of their activity in the host country and to incorporate non-financial risk management into the project definition phase. Furthermore, access to financing provided by multilateral development banks (MDBs) entails complying with very similar requirements to those demanded by COFIDES. In this sense, several of the executives interviewed indicated that the interaction with COFIDES analysts during the process of *obtaining* financing and the subsequent follow-up of the project constituted a valuable learning curve, that later became an advantage in the access to MDB financing.

- *The advantages for the international company to adopt pro-development approaches*⁸

The concept of CSR is based on the company's responsibility for the impact of its decisions on society and environment. The responsibilities of the company originate in the context of its relations with the different stakeholders, which have expectations about their behaviour in the development of their business activity. CSR therefore refers to the activity of the company and the way it is carried out, that is, to its management practices and business model.

The legitimacy of a company and its acceptance by society depends on its ability to respond to social expectations, which are often higher than the legal requirements, so the company must be willing to steer its practices and business model in that sense, if it wants to obtain and preserve the 'social license to operate'.

The application of CSR in developing countries entails additional requirements. One of the characteristics of these countries is the lower level of institutional development, which usually involve the existence of laws that tend to be less demanding or contained within weaker regulatory frameworks. In this context, in the last two decades international organisations (including the United Nations, ILO, OECD and IFC), in dialogue with companies, governments and civil society, have shaped frameworks, principles and guidelines at global level regarding responsible corporate conduct, setting the minimum standards with which international companies must comply. In this sense, being a responsible investor involves complying with the current legislation of the host country, applying internationally recognised standards and addressing as a priority those negative impacts on human rights and the environment that may occur, either within the scope of its own activity or as a result of their business relationships.

But CSR is not only risk management, but also opportunity management. As highlighted by several authors (Lozano, 2016; Varela, 2012), CSR is an approach that contributes to a better adaptation of the company to its environment by integrating, on one hand, social and environmental concerns in the company activity and, on the other, by relying on the dialogue with the different stakeholders. This is particularly relevant in developing countries, as it enables the company to have a better understanding of the local context and the identification of those aspects in which positive synergies can be generated between business and society, or opportunities for the creation of "shared value" as expressed by Porter and Kramer (2011). Hence, talking about the CSR of international companies operating in developing countries is tantamount to talking about adopting pro-development approaches.

8 In this section we focus exclusively on the pro-development approach advantages that have become evident in the cases studied. The reader who is interested in an overview of these advantages, is recommended to read Varela's monograph (2012) on the pro-development approaches that an international company may pursue, especially chapter 2.

In this sense, the FDI projects analysed in this study have revealed a number of advantages for the promoting companies, resulting from the adoption of pro-development approaches. In particular:

A) Advantages for the subsidiary in the country

- More favourable assessment by the public sector, which translates into a reduction of regulatory risk (greater legal certainty) and a greater propensity of the public sector to cooperate in the resolution of unforeseen problems (case of company E in Mexico).
- Use of synergies in aligning the company's strategy with public policy objectives, which leads governments to facilitate access to industrial sites, financing for investments in fixed assets or co-financing in the form of subsidies to R & D projects of the subsidiary (cases of companies B in Mexico and C in China).
- Greater acceptance from the local community, as the incorporation of environmental sustainability and social responsibility aspects allow the company to better meet the different expectations of local stakeholders, which translates into a greater acceptance of the company's activity (or 'social license to operate', especially important in agribusiness, extractive industries and infrastructures) (cases of companies A in Peru and B and E in Mexico).
- Greater commitment and motivation of the subsidiary employees (in all cases).

b) Advantages for the parent company

- Competitive differentiation, responding to customer requirements when it is a large company that requires its suppliers to comply with environmental standards and respect for human rights (cases of companies A and C).
- Acquisition and development of new skills, the result of learning how to best adapt to the realities of developing and emerging countries (in all cases).
- Improved capacity to access financing for FDI projects in developing countries through DFIs such as COFIDES, Multilateral Development Banks and international investment funds (in all cases, and especially in infrastructure concession projects).

In summary, in the cases studied, the advantages associated with the pro-development approaches contribute, on one hand, to facilitating the adaptation of the subsidiary to the host country and to make the return on investment more sustainable and, on the other hand, for the investing companies to be able to differentiate themselves competitively and have greater capacity to grow internationally.

- *The advantages for the home country that its international companies adopt responsible and pro-development investment approaches*

The FDI projects studied have a number of positive effects in the home country, in our case Spain. Some of these effects are common to most FDI projects, while others are specific and linked to the adoption of responsible and pro-development approaches by the promoting companies. In the first group of effects, the common ones, we find the following:

- Positive effects on the balance of payments through the repatriation of dividends and royalties payment. Also, when the foreign subsidiary creates demand for capital goods, intermediate goods or complementary products that are exported from the home country (pull effect on Spanish exports, significant in the cases of companies A, C and D).
- Positive effects on employment as a consequence, on one hand, of the above-mentioned export pull effect and, on the other hand, of the increase in qualified employment in the parent company, as a consequence that the company is larger and the network of foreign subsidiaries needs to be coordinated and controlled.
- Improved competitive position of the promoting companies (e.g. by allowing them to gain economies of scale and to geographically diversify, to ensure the supply of quality raw materials at a lower cost, to develop new capabilities as a result of meeting different customers and competitors which can be transferred to similar countries).

Regarding specific effects in the home country, linked to the adoption of responsible and pro-development investment approaches, we find that:

- To count on companies that have developed capabilities to better adapt to the emerging countries realities and, therefore, have more solid bases to grow in the markets with greater potential in the medium and long term.
- A positive image of Spain in countries where our companies invest. The main ambassador of the "Spain's Brand" are the subsidiaries of Spanish companies around the world, since what is visible to the different local stakeholders (among others, clients, suppliers, employees, competitors, public administrations, NGOs, media) is their activity in the country. Hence, the importance of perceiving Spain as a country with not only technologically advanced companies but also socially and environmentally responsible ones.

The significant internationalisation of Spanish companies in the last two decades has important implications not only for the Spanish economy but also to the country's foreign policy. Since 2012, the turnover of foreign subsidiaries of Spanish companies has been higher than the total volume of Spanish exports of goods and services, including tourism, which stands as a major advantage as it undoubtedly increases our influence and negotiation capacity as a country over those countries where Spanish companies have a greater presence, as well as significantly widen the potential interests that Spanish foreign policy must take into account. Hence the importance to promote, as COFIDES does, that international Spanish companies adopt responsible investment approaches in all cases.

- *SDGs as a reference framework for pro-development approaches adopted by the companies*

The results of our study raise two important practical questions for companies wishing to adopt pro-development approaches: how to assess our current contribution to development? and how to improve our impact in the countries in which we operate?

The different case studies reveal that the SDGs are an appropriate reference framework to answer the previous questions. The SDGs define sustainable development priorities at a global level and the goals to be achieved by 2030. They constitute a true “global agenda for sustainable development”. While the main target of SDGs are governments, they have however, been designed to facilitate the contribution of all types of organisations to a common priorities framework, especially recognising the key role that companies can and should play in their achievement.

In this sense, the SDGs seek to encourage companies around the world to reduce their negative impacts and improve their contribution to the global development agenda by promoting socially inclusive and environmentally sustainable business models as well as to disclose the obtained results to the whole of society. To this end, the Global Reporting Initiative, the Global Compact and the World Business Council for Sustainable Development have jointly developed the SDG Compass Guide, which establishes a five-step process for companies to integrate SDGs into their strategy and to measure and report on their contribution to them (see Figure 3 on the next page). These are the steps proposed by this guide, to which we incorporate some comments from the case studies analysed (GRI et al, 2016, p5):

- 1) *Understanding the SDGs.* This is the starting point. Their understanding is the step before the recognition of SDG relevance as a reference framework for business decision making. This recognition is closely associated with the company’s own mission, vision and values and, therefore, its social responsibility conception.
- 2) *Defining priorities.* To this effect, it is recommended to evaluate in advance the current impact of the company’s performance on the different SDGs throughout its value chain, including its suppliers and distributors, in each of the countries in which it operates. This diagnosis should allow the company to identify the most significant risks for which it is a priority to take preventive and, if necessary, corrective measures, as well as the potential opportunities associated with SDGs. It is important to emphasise that, as we have seen in the case studies, both the risks and opportunities associated with SDGs have highly specific components, and they are strongly influenced by the activity sector of the company and by its business model.
- 3) *Setting goals.* The alignment of company goals with their contribution to the SDGs is based on the search for business success and sustainability in the medium and long term through the creation of “shared value” and a proactive non-financial risk management. For companies that already have CSR policies, SDGs (previously MDGs) represent an aid in defining their responsibilities to different stakeholders while facilitating dialogue with them. In the cases studied, the existence of a previous CSR policy (companies A, C and E) facilitated a greater ability to respond to the expectations of the different stakeholders and a better adaptation to the local context of the subsidiary.

- 4) *Integrating the SDGs in the company activity.* This is the most difficult stage and one where top management commitment to CSR policies and to sustainable development is put to the test. For this, it is essential to embed the responsibilities in terms of the SDGs that the company has set out to assume, in the governance and in the business activity processes, translating them into concrete goals across all functions and, where appropriate, geographies. Note that in order to achieve these goals, the company will probably need to review its management model and/or its management practices. Moreover, and more often, companies establish alliances with other partners in their sector (suppliers, clients and even competitors) or with governments and NGOs to achieve shared development goals.
- 5) *Reporting and communicating on the contribution.* The SDGs provide a common language and a shared commitment, making a common dialogue among stakeholders easier for the company and facilitating the disclosure of its performance in terms of sustainable development. For this, the company needs to define new management indicators and create the organisational processes to capture information, to elaborate and spread it among the different managers. Given that the development of management information systems is a complex and costly activity, it is very important that the development of the new indicators be carried out jointly by those managers responsible for making business decisions since, ultimately, they are the ones committed to the achievement of the goals set and it is up to them to take the actions needed to achieve them. In other words, the indicator system related to SDGs becomes a true “compass” service for company managers and executives in creating “shared value” that benefits both the company and society.

Figure 3. Process to align business strategies with the SDGs, measure and report the company’s contribution



Source: GRI et al (2016)

Finally, it should be noted that the SDG Compass is made up of the five-step process described above and a series of management tools and indicators to measure contribution to SDGs. This has been developed with a focus on large companies. However, small and medium-sized internationalised companies will find it a useful source of inspiration when adopting pro-development strategies adapted to their business reality.⁹

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Most of the publications mentioned in this abridged version of the study report are available on the Internet. Given that web links to this type of documents often experience changes or are deleted, we have chosen to show the reader that the cited documents that can be found in the network with the indicative [@]. Through the use of any web browser, by just entering the title of the document it can be easily found. We recommend the use of Google Scholar to search for articles published in academic journals.

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9 For more information on the SDG Compass guide and on the management tools and indicators that accompany it, please visit: www.sdgcompass.org

Foreign Direct Investment of Spanish Companies

EFFECTS ON HOME AND HOST COUNTRIES: FIVE CASE STUDIES IN DEVELOPING AND EMERGING ECONOMIES
[Abridged Version]

The private sector is expected to play a leading role in the achievement of the Sustainable Development Goals (SDGs). New financing modalities for development emerge, resulting from the cooperation between public and private actors, highlighting the Development Finance Institutions' role as catalysts for business investment, as well as for the generation of positive effects on the economy of host and home countries.

The current study is one of the first in Spain to evaluate the impact of a number of FDI projects in developing countries, using the contribution they make to the SDGs as a reference framework. As a novel feature the report explores the mechanisms and contextual factors that contribute to positive impact, both for host and home countries.

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