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Profitability of Spanish Foreign Direct Investment

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Rentabilidad de la inversión española directa en el exterior

Rentabilidade do investimento estrangeiro directo espanhol

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In this paper the focus is on the profitability of the Spanish FDI stocks owned by foreign and domestic firms. The implicit rates of return are estimated and analyzed for two different main components, capital stakes and inter-company loans, over a period spanning from 1993 and 2007, in a systematic comparison with other developed countries and after a discussion of some methodological and statistical issues. The time dynamics of stock and incomes are also previously considered as a base for a better understanding of the great changes that have recently taken place in the position of the Spanish economy in the international investment overview. The main result is a comparative low profitability of the FDI assets and liabilities in Spain which could explain the slowdown of the inward flows in the last years. However, the contrast between the main data source, Eurostat, and domestic data for the firms involved advises us to be very cautious about this conclusion.

El presente artículo se centra en la rentabilidad del stock español de IDE que pertenece a empresas extranjeras o nacionales. Las tasas de devolución implícitas se calculan y se analizan para dos componentes básicos diferentes, participaciones de capital y préstamos interempresariales, a lo largo de un periodo que va desde 1993 a 2007, en comparación sistemática con otros países desarrollados y tras el análisis detallado de algunos problemas de metodología y estadística. La dinámica temporal del stock y los ingresos también se tienen en cuenta como base para comprender mejor los grandes cambios que se han producido recientemente en la posición que la economía española ocupa en el panorama general internacional de inversiones. El resultado principal es una menor rentabilidad comparativa de los activos de IDE y de las responsabilidades en España lo que podría explicar el ralentización de los flujos internos en los últimos años. Sin embargo, el contraste entre la fuente de datos principal (Eurostat) y los datos nacionales de las empresas implicadas invitan a la precaución a la hora de sacar dicha conclusión.

O presente artigo centra-se na rentabilidade dos stocks de IED espanhol detidos por firmas estrangeiras e nacionais. As taxas de retorno implícitas são estimadas e analisadas para dois componentes principais, participações de capital e empréstimos inter-empresas, ao longo de um período que vai de 1993 a 2007, numa comparação sistemática com outros países desenvolvidos e após uma discussão de algumas questões metodológicas e estatísticas. A dinâmica temporal do stock e dos rendimentos é também previamente considerada como base para uma melhor compreensão das grandes mudanças que tiveram recentemente lugar na posição da economia espanhola no panorama de investimento internacional. O principal resultado é uma rentabilidade comparativa baixa dos activos e passivos do IED em Espanha, o que pode explicar o abrandamento dos fluxos de entrada nos últimos anos. No entanto, o contraste entre os dados da fonte principal, o Eurostat, e os dados internos para as firmas envolvidas aconselha-nos a sermos muito cautelosos quanto a esta conclusão.

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1. Introduction

The final years of the last century witnessed a huge change in the position of Spain in international investment regarding Foreign Direct Investment (FDI) flows, as this country transformed from net importer of capital to net exporter. These changes transferred very fast to the Spanish stock of this kind of assets and to the balance of payment by capital incomes that also went from negative to positive in the years of the new century.

The Spanish FDI flows have received frequent attention from the analysts, but the same cannot be said for the stocks, the incomes they generate and the returns involved in them, and those latter two aspects what are precisely the ones focused on in this paper.

In particular, the International Investment Position (IIP) in balance of payments terminology (stocks) and FDI revenue, as well as the interaction between both (the implicit profitability of the investment, in words of the Bank of Spain) are aspects which have scarcely been dealt with in specialist literature, even if their importance is generally assumed. In principle stocks can be expected to help in explaining revenue evolution, and the latter, in turn, may be a determining factor not only in attracting new FDI flows, but also in keeping them inside the host country.

Except for a few cases, the statistical gaps in available information and the widely-varying criteria in stock and revenue calculations, make analysis even more hazardous. Along with inherent problems involved in understanding the aggregate of the figures, it may help to explain the fact that both aspects have had little comment in the literature; except for the United States, where profitability differentials in FDI assets and liabilities (in favour of the former) have caused considerable controversy¹. In the case of Spain, Banco de España has recently made estimates of implicit profitability on an aggregate plane². Moreover some account, albeit a very superficial one, has been given of the evolution of stocks and income in more general studies on Spanish FDI³.

As was advanced above, this article deals with the analysis of stocks, income and profitability of FDI for the case of Spain, extending the timescale (1993-2007) making comparisons (eleven Community countries plus the United States), and widening the field of attention to their two main financial instruments, namely, stocks of shares and other forms of stakeholding, and inter-company loans granted to or by direct investors from or to associated enterprises, as well as the revenues and payments for the incomes they generate. For this, the Balance of Payments and International Position of Spain and Eurostat have been used as statistical sources. Likewise, in order to make progress beyond results which are by necessity limited (due to problems in constructing starting data from the balance sheet), a scenario closer to reality is contemplated, for which FDI stocks and income are used, as declared by the selfsame resident and non-resident firms in Spain. This will serve to endorse, as needed, previous findings on the evaluation of the

KEY WORDS

FDI, Income, profitability, Spain

PALABRAS CLAVE

IDE, Rentas, Rentabilidad implícita, España

PALAVRAS-CHAVE

IED, Rendimento, rentabilidade, Espanha

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1. For example, Mataloni, R.J. (2000), Higgins, M., Klitgaard, Th. And Tille, C. (2005), Haussmann, R. and Sturzenegger (2005) and (Heath (2007).

2. See: Banco de España (2007), section 4.2, Evolución de las rentabilidades implícitas de la Posición de Inversión Internacional, pages 93-96 (Evolution of implicit profitabilities of the International Investment Position).

3. See, for example, Fernández-Otheo (2007a).

efficiency of the investment process.

From this first section of the introduction, the paper is organized in the following way: in the second one some statistical and methodological issues are discussed; the level of evolution of stocks and incomes of assets and liabilities by FDI are analyzed in a third while the calculations of implicit profitability are presented in the four, finishing the paper with some conclusion in the fifth and last section.

2. Note on statistical sources

The conceptual framework of the International Investment Position (IIP) of FDI, -or, if preferred, of stocks- was already presented in the 1993 Balance of Payments Manual, (MBP5), by the IMF, who described it in the following terms: "The IIP is a statistical balance sheet showing the ownership of external assets and liabilities of an economy at a particular moment in time. These balances are the result of previous transactions with other countries at current market values (current market prices and exchange rate) and other factors (for example, accounting cancellations or reclassifications) at a particular time" (IMF, 2002, page 3). To sum up, at the year end, the IIP is obtained by adding to the IIP transactions for the previous year the FDI transactions, changes in asset and liability prices, interest rate variations and other adjustments. Net IIP thus reflects the difference between what an economy owns and what it owes in FDI terms.

Obtaining market prices is not at all easy, mainly because many subsidiary companies created by multinationals (EMNs) are not quoted on the stock market, the main reference used hitherto to record price variations in assets and liabilities. This means that the latter IMF recommendation is only half met, according to the availability of information, as can be seen from the replies of Community countries to the European Central Bank (2005) on how the IIP is drawn up. There is relative homogeneity as far as the FDI instruments included are concerned, but none at all in the case of constructing the data: some do it by means of book value or "historical costs" (which normally register the cost of acquisition and accrued profits in the form of reserves), others add the variations in currency rates of exchange in which assets and liabilities are denominated (current values), and others do so in market value (by applying them to previous types of stock market indices or other ways (by questionnaires to firms, for example). In other cases mixed systems are used. Information on how statistical series have been constructed is particularly hard to come by, with no hint as to whether they are updated or not, or from what time... The United States is one of the few countries which provides complete, significant information. It builds up three types of series, but the one broken down into sectors and countries is only offered at historic cost⁴. In Spain, for example, a simulation was recently carried out on the market value of the asset stock (Banco de España, 2007).

Obviously, the most accurate evaluation criterion is the latter, but few countries use it when preparing their balance sheets. To overcome this obstacle, some authors have made simple transformations to pass on to market values, by applying stock market indices to annual

4. On Internet: www.bea.gov.

aggregate figures. Heath (2007) has done it for some OECD countries. Apparently, this exercise provides a truer measurement of assets and liabilities, but is still no more than a mere approximation. The complexity involved in calculating it is clearly shown when we consider what was carried out by the Banco de España (2007, pp.89-92) for FDI abroad. This managed to use more than thirty stock market indices to calculate asset values (and these are broken down between an effect due to price variations and another from the exchange rate. Even then they make the express point that “the result must be considered as a mere indication of the true market value” (p 90). In any case, the year-on-year variations can be considerable, depending on the evolution of stock markets, and this aspect should be borne in mind when interpreting the findings.

Spain usually presents its IIP information at book value, including some modifications in the statistical series on the basis of changes in the FDI instruments which might occur (for example, transferring or reducing the 10% stake in share capital). This means passing from FDI to portfolio investment or the opposite, or a substantial modification in the value of the stake (for example, the loss or increase in value of some particular operation). Thus, the Balance of Payments figures are those sent to Eurostat, where this same criterion also seems to be applied. And, in fact, the search for standardisation has been the key factor in the choice of this body as a statistical source for the analysis which is made in the following sections.

Eurostat is also the nearest source to the UNCTAD stock figures reviewed in their annual reports (*World Investment Report*), where it is explicitly stated that stocks have been constructed by means of the accrued total of flows, that is, by the book value criterion. As can be seen in Table 1, the differences

between Eurostat and UNCTAD are minimal in assets and liabilities declared by countries reported in 2000, they are still so in 2006 in the former, and more important in the liabilities, especially for Germany, Austria, Sweden and the United States. In any case it should be borne in mind in order to explain part of these differences that potential revisions of figures have been made at different times. The alternative was the IMF, but in this latter case, we know for certain that countries such as the United States present their figures at market value (in fact, they are identical to those provided by the *Bureau of Economic Analysis* for this same criterion), and quite probably for France and some other country, apart from the fact that in other cases they might be expressed in current values (corrected for the exchange rate).

In book values variations prices in asset and liability are not recorded, but this seems not so essential for observing particular behaviour in FDI in terms of evolution and, even, on the comparative plane, as will be shown later. Indeed, the effects of not valuing assets and liabilities with market criteria are evident: undervaluation in the case of stocks and overvaluation of profitability than when they are made at market values. What is really important is, in fact, not rushing to conclusions and acting with extreme caution when making inter-country comparisons.

With regard to the different time periods chosen here to facilitate the analysis, the following aspects have been taken into account: a) medium or small sized countries (and sometimes the large ones as well) show considerable oscillations in revenue from year to year, so presenting them in aggregate form partly alleviates this problem. b) From 1999 onwards the effects of the euro began to be seen, giving rise to an unprecedented growth in financial assets and liabilities. and c) As pointed out in the

Eurostat explanatory documents, in 1999 the operations carried out through special purpose entities (SPEs) were recorded, according to the IMF⁵. These intermediary operations, which used certain countries as transit stops towards other final destinations also form part of FDI, but are hardly linked to productive systems where SPEs have their headquarters; and unfortunately, they are not usually separated in total figures. Bear in mind that these operations initially come to make up the liabilities stock, and afterwards, the asset stock for the country preparing the balance sheet. Thus, both phases cancel each other out in net terms; and likewise, come to swell the revenues and payments by FDI incomes, and this adds a strain to the valuation of the process in a country where these operations have been important, especially in Holland, Luxembourg and Spain⁶.

Table 1: Comparison fo International FDI stocks sources, 2.000-2.006

| Country | Eurostat/UNCTAD | | | | Eurostat/FMI | |
|----------------|-----------------|-------------|--------|-------------|--------------|-------------|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | 2000 | | 2006 | | 2005 | |
| Austria | 6,9 | 7,0 | 2,2 | 26,7 | -2,6 | 10,7 |
| Denmark | -2,7 | -2,6 | -6,1 | -7,6 | 7,5 | 5,9 |
| Finland | 6,9 | 7,0 | -2,3 | -2,0 | 6,8 | 10,8 |
| France | 6,9 | 7,0 | 2,1 | 1,3 | -33,3 | -27,2 |
| Germany | -4,2 | 46,3 | -4,6 | 28,4 | 4,2 | -0,8 |
| Holland | 6,9 | 6,9 | 4,0 | 5,1 | 2,7 | 6,4 |
| Italy | 6,9 | 0,3 | -4,8 | -5,6 | 5,4 | 7,5 |
| Portugal | 8,1 | 6,9 | -6,5 | -11,4 | 4,5 | 7,2 |
| Spain | 6,9 | 7,0 | -5,2 | -6,1 | 5,8 | 6,4 |
| Sweden | 7,3 | 7,4 | -7,3 | -15,2 | 8,7 | 4,9 |
| United Kingdom | 6,9 | 6,9 | -2,5 | -8,7 | -12,9 | -22,8 |
| U.S.A. | 7,0 | 7,0 | 6,7 | 19,7 | -37,5 | -37,8 |

Sources: Own elaboration from UNCTAD (2006,2007), Eurostat y IMF (Internet, September 2008).

3. International Investment Position, stocks and incomes

The IIP of FDI subdivides into two components: stocks and other capital stakes, and other FDI capital. The latter records the stock of net inter-company debt, that is, related financing between firms belonging to the same group, regardless of their maturity, providing they are not credit organisations⁷. Holding assets and liabilities generates income and payments through FDI income, either through dividends received by the investing firm, by reinves-

5. Denominated in Spain as Entidades Tenedoras de Valores Extranjeros (ETVE).

6. The importance of these operations in the case of Spain can be seen in Fernández-Otheo (2003, 2007a).

7. Related funding between financial institutions does not form part of FDI.

ted profits in the subsidiary company (even though they are not real transactions)⁸, and by the interest on the loans (originating in the other FDI capital).

The decision bringing the FDI to adopt the form of loans instead of capital stakes relies on several determinants, but recently the level of corporate fiscal taxes in host and issuing countries has been underlined by analysts. There is some evidence that low-tax recipient countries are very attractive for EMNs, the case of Ireland being a paradigm of this, and also of the negative impact that tax levels exert on flows: a 1% increase in corporation tax leads to a 3.3% FDI reduction according to a recent meta-analysis⁹. But another based on individualised data of forms (Moore and Ruane, 2005), reveals that this same increase means a 0.35 rise in the inter-company loans.

As the final aim of this paper is to find out the profitability of the investment process, it is important to take in account the composition of stocks as it might influence it. In any case, the following section deals first with the analysis of the importance, characteristics, structure and evolution of IIPs and subsequently with that of the revenues that reward such investments.

8. The calculation is made by differences between the total year's profit minus payments in the form of dividends in that year. They are fictitious transactions, according to the balance of payments, since it is assumed, in one case, that the undistributed profits are received in the first place by the direct investor (fictitious income transaction) and immediately reoriented towards the corresponding subsidiaries (fictitious direct investment transaction (Eurostat, 2007, page 9)).

9. This analysis was made by Ederveen and de Mooj (2003). The impact of taxation upon issuing and recipient countries on the stock of FDI issued and received, for a fairly large group of OECD countries can be seen in: Egger, Loretz, Pfaffermayr and Winner (2006). More recently, Backus, Henriksen and Storesletten (2007) have shown the duality of findings for the impact of taxation on firms when deciding where to locate their headquarters in the OECD, with the fiscal measure chosen depending on the firms adopting it: effective tax rates (slight relationship) or corporation tax (intense relationship).

3.1. Evolution of FDI Stocks. Assets and Liabilities

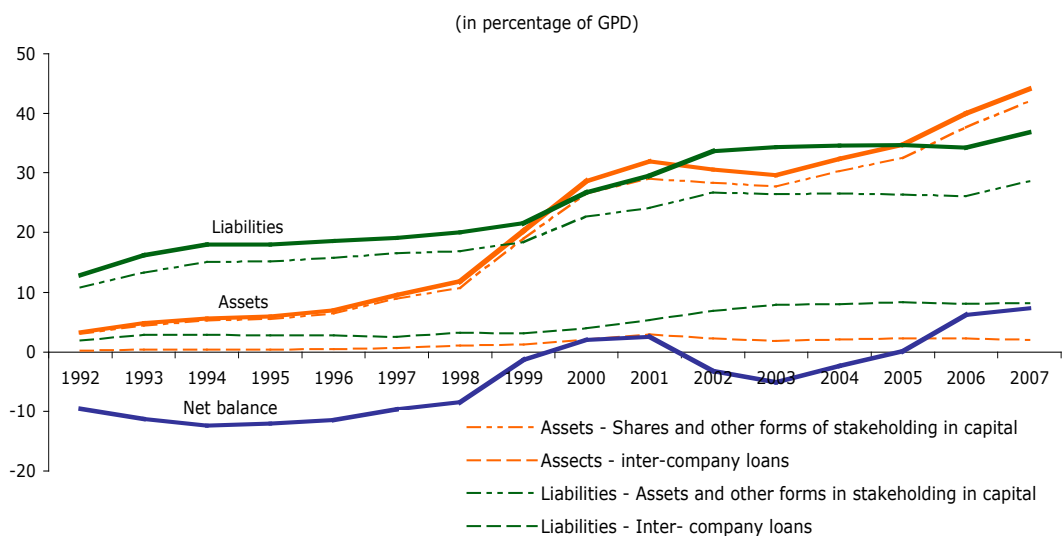
Whereas foreign capital has been present in Spain for more than a century, with phases of intensive growth such as in the period just before and after its entry into the European Union, the significant presence of Spanish firms abroad is a very recent phenomenon and also an outstanding one, due to the firms' rapid incorporation to the international production sphere. When FDI stocks are considered together, Spain's financial integration into the international community has shown a drastic change in just fifteen years, going from a clear backwardness compared to other developed countries (the sum of FDI assets and liabilities compared to GDP reached 16% in 1992), to play an active part in the field of international production (81% in 2007).

Both stocks of assets and liabilities grew, albeit unequally (graph 1): the former strongly, the latter less firmly. On the asset side, the insignificant external presence at the beginning of the nineties (3.3% of GDP in 1992), has given way to a different situation, which is clearly comparable to our fellow Community members (44% of their GDP in 2007). If we look more deeply into the FDI structure it can be observed that the asset stocks have been built up largely on share capital and other forms of stakeholding, with only an insignificant presence of types of related inter-firm funding. This is a distinguishing mark of Spanish assets compared to other countries, as will be shown later on.

These findings will obviously be more favourable to Spain if the figures are presented in truer values. The Banco de España (2007, pages 89-92) has recently carried out a review of Spanish FDI assets abroad, adjusted for the theoretical market value. The findings extend the Spanish position

quite noticeably, at least in recent years. As can be seen in the graph in box 1, shown there, the two series, the official one published in the Balance of Payments and the theoretical one estimated at market value went hand in hand until 2003. Since then a significant gap of 20 extra percentage points has been opened up, that is, as much as 61% of GDP, linked to the expansion of share values on the stock exchange markets.

Graph 1: Evolution and structure of International Investment Position (IIP) of Spanish FDI, 1.992-2.007



Source: Banco de España, *Balance of Payments and International Investment Position of Spain 2007*.

Anyway, the reasons behind that impressive expansion of the assets are various. Below, some will be mentioned: acquiring and improving ownership advantages, the solid state of company wealth, with high rates of profitability throughout all these years¹⁰, the recurring use of mergers and takeovers in order to grow, the need to expand and diversify their activities to tackle the growing number of competitive challenges, or the adoption of a “new Anglo-Saxon business culture” according to *The Economist* ((10.02.06). All of this is linked to the brilliant rise in the international rankings of the business schools, in particular, and, the substantial improvement of human capital, in general. Nor must we ignore the framework in which firms have been working: the vigorous growth of the Spanish economy, favourable conditions for funding in national and international markets and a fiscal system very favourable for external FDI¹¹. All of this, along with a favourable outlook for the evolution of future profits, has meant a considerable increase in resident firms’ indebtedness, with growing resort to bank funding. This has clearly been reflected in other parts of the balance sheet, particularly in portfolio IIP (Banco de España, 2007).

10. According to the Central de Balances (Commercial Performance Information Bureau) of the Banco de España (2007).

11. The internationalisation of the Spanish economy has given rise to a number of works and research projects. Worthy of note, among others, are some classics and others very recent: Campa and Durán (1996), Guillén (2006), Durán (2006), Fernández-Otheo (2003, 2007a). On the determining factors at firm level see Plá-Barber (1999) and Gordo, Martín and Tello (2008).

The path followed by the stock of liabilities is a very different one, both regarding the starting conditions of the analysis (it is an FDI which is already mature) and its evolution since that time. At the beginning of the nineties Spain still benefited from the effects of the amount of investment brought about by its entry into the European Union¹², reaching in 1992 13% of GDP. Low level growth in successive years, with moments of acceleration around the turn of the century, gave way to stagnation in recent years, although provisionally this seems to have ended in 2007, thanks to the energy boost, brought on by important acquisitions of resident firms, and this has reached 37% of GDP.

This apparent loss of attractiveness of the Spanish economy for foreign capital is visible both on the plane of FDI inward flows and in the presence of a divestment process with negative effects on the production not completely observed on the aggregate plane, but affecting to particular sectors, basically manufacturing, some of which are highly technology intensive¹³.

The main form of FDI financing was always share capital and other forms of stakeholding, but in contrast with what has been observed with assets, loans from the parent company or other subsidiaries to the Spanish subsidiary always accounted for a significant number (between 15-22% of total FDI in 1992 and 2007). In the above-mentioned graph, nonetheless a strong growth in this form can be seen around the turn of the century, though it subsequently eased off. The most reasonable explanation is the fiscal question, in line with what was mentioned at the beginning of the section: the higher fiscal burden borne by Spanish firms not only reoriented new FDI towards a greater use of inter-company loans, it also spurred a substitution process between modalities, aimed at reducing the amount liable for tax¹⁴.

Different paths in the stocks of assets and liabilities curbed the traditional position of Spain as a net recipient of investment, transforming it into the opposite, that of a net issuer as can be seen in [graph 1](#)¹⁵. This trend change was first glimpsed around the turn of the century, and has been seen once more in recent years. (In 2007 the net IIP FDI balance accounted for 7.3% of GDP)¹⁶.

The comparative outlook with other countries enables a more complete evaluation of the path of FDI stocks to be made ([table 2](#)). The summarised findings are the following. In term of assets volume, relative to GDP, Spain is situated at the average level of the countries selec-

12. What Baldwin, Forslid and Haaland (1996) call “effects of investment creation”.

13. Myro, Martín and Fernández-Otheo (2006), Myro et al. (2007) and Myro and Fernández-Otheo (2008).

14. With company data (Banco de España Commercial Performance Information Bureau) towards the end of the nineties an important substitution of share capital by inter-company loans took place (Myro, Martín and Fernández-Otheo, 2006); a fact which is also seen in balance of payments data. More recently, news has been published in the media that the Spanish Inland Revenue has warned several multinationals against “financial engineering” practices, when tax systems favoured paying interest through loans when there was a real motive, in accordance with legislation, some subsidiaries squared expenditure with revenue, so that the profit was reduced in order to have no tax to pay. (El País, 19-01.07).

15. The journey along this path was initially analysed by Dunning and Narula (1994). For the case of Spain, see López-Duarte and García-Canal (1998) and Durán and Úbeda (2001). The recipient and issuer perspectives are studied jointly in Fernández-Otheo (2003).

16. It is a comparatively clean balance from the perspective of its productive implications if it is borne in mind that the activity of the SPEs belonging to non-residents, which is not be sneezed at in the whole of the FDI (a third of the annual aggregate net flows, excluding real estate), is neutralised in practice, when flows are received and issued to and from abroad almost simultaneously. This does not mean that their impact is not considerable in assets and liabilities separately, and that in one way or another they distort FDI revenue, since there is no breakdown at all in terms of IIP in the balance of payments (and neither in that of other countries).

ted for comparison purposes, a long way below some of them, such as Holland, the United Kingdom or the Nordic ones, but above Italy, Portugal and Germany. It should be noticed that the lowest ratios of all correspond to the United States, and this can be explained by the importance of size of the domestic market, as is the case with the commercial opening up or with selfsame FDI of the EU if only extra-Community flows are considered. In terms of growth (1995-2006) it nevertheless provides the highest figure (after Portugal)¹⁷.

With regard to liabilities levels, Spain is also in an intermediate situation. However, its stock shows a surprisingly low rate of growth, the lowest in all the countries observed, particularly between 2000 and 2006 (28%). This is not as much as took place in Ireland a country until recently disputed by the MNE where the stock of liabilities has shown an 8% fall. In any case, the contrast of Spain with nearly all other countries is sufficiently marked for us to be able to talk in clear terms of loss of attractiveness, or, if, you wish, a lessening of the comparative advantages enjoyed by Spain for foreign production-linked capital, particularly in manufacturing.

The fact that liabilities have risen less than assets in most community countries is to be expected, since nearly all of them can be considered as mature in terms of foreign investment, where business opportunities are fewer, there is more competition, especially in manufacturing and, foreseeably, profit margins will be smaller than in other higher growth areas, especially in emerging countries. This last point is difficult to establish due to lack of information.

On the investor balance sheet something is seen which was to be expected, since this affects developed countries: FDI assets are greater than liabilities; differences in the respective balances are, nevertheless, considerable, and in most cases the positive slope has grown more pronounced with time. Spain has substantially modified its role in this group of countries, steadily becoming part of the common norm, with a predominance of positive signs: starting from a notably negative position, in 2006 it showed a positive balance.

17. A recent analysis on the evolution of international FDI, on the recipient plane can be seen in Myro et al. (2007).

Table 2: Evolution of FDI International Investment Position, 1.995-2.006

(in percentage GDP)

| Country | Assets | | | Liabilities | | | Balance | | |
|----------------|---------------------|------|-------|-------------|------|------|---------|-------|-------|
| | 1995 ^(a) | 2000 | 2006 | 1995 | 2000 | 2006 | 1995 | 2000 | 2006 |
| Austria | 4,9 | 12,7 | 24,6 | 7,3 | 15,5 | 30,7 | -2,4 | -2,9 | -6,1 |
| Denmark | 15,2 | 41,0 | 51,5 | 12,3 | 41,3 | 46,7 | 2,9 | -0,3 | 4,8 |
| Finland | 11,4 | 42,3 | 42,7 | 6,5 | 19,7 | 30,2 | 5,0 | 22,6 | 12,5 |
| France | 12,7 | 33,2 | 49,5 | 11,9 | 19,4 | 35,6 | 0,8 | 13,8 | 13,9 |
| Germany | 10,2 | 25,2 | 33,2 | 7,6 | 24,5 | 22,3 | 2,6 | 0,7 | 10,9 |
| Holland | 42,9 | 78,5 | 102,1 | 29,6 | 62,7 | 71,4 | 13,2 | 15,9 | 30,8 |
| Italy | 8,6 | 16,3 | 19,5 | 5,6 | 10,2 | 15,2 | 3,0 | 6,1 | 4,3 |
| Portugal | 3,5 | 17,4 | 26,6 | 15,9 | 28,2 | 39,3 | -12,4 | -10,8 | -12,7 |
| Spain | 5,8 | 28,6 | 39,5 | 17,5 | 26,7 | 34,1 | -11,7 | 1,9 | 5,4 |
| Sweden | 28,3 | 49,9 | 62,5 | 12,0 | 38,1 | 47,5 | 16,3 | 11,9 | 15,0 |
| United Kingdom | 26,6 | 61,3 | 61,0 | 17,4 | 29,9 | 43,6 | 9,2 | 31,3 | 17,4 |
| U.S.A. | 9,4 | 13,3 | 19,5 | 7,2 | 12,7 | 16,4 | 2,2 | 0,6 | 3,1 |

Note : (a) The figures for Denmark and Portugal correspond to 1996.

Source: Own elaboration with Eurostat data.

The FDI stocks profile would be inconclusive without information on how it is made-up, that is, which part corresponds to share and which the net financial debt. It should be remembered that the final aim is to find out the profitability of the investment process and the composition of stocks that might influence it.

In a general way, FDI has always been sustained by share capital, basically, both in assets and liabilities; though in the former they take up a rather greater space (table 3). This happens for all the countries, despite the disparity in observed behaviour, and except for a few particular cases (for example, Ireland¹⁸, whose data are not shown in the table), there has scarcely been any variation over time.

Except for a few cases (for example, Holland, with 60 % of the total), in most countries the existing assets in 2006 have been based upon share capital, with a very slight margin for related funding. Spain has been, along with the United Kingdom and Portugal, a country where this latter instrument has had very little importance.

18. Ireland is the most significant example of changes in structure of its liabilities (not in assets, where it follows a similar pattern to the remaining countries), but for also being the one with the greatest changes in corporation tax. In 2000 shares and other forms of stakeholdings accounted for 83% of the total, a figure below that for other countries looked at in the table. In 2006, however, a massive fall in inter-company loans (of the order of 30% of GDP), and a dizzy rise in shares and other forms of stakeholding, with this type reaching 144% of the total stock. The reason is clear: firms were adjusting to the new fiscal conditions, particularly advantageous for firms' returns.

Table 3: Dissaggregation of FDI International Investment Position by instruments, 1.995-2.006

(in percentage GDP)

| Country | Assets and other forms of stakeholding (A) | | | Inter-company loans | | | % A/Total IIP | | |
|--------------------|--|------|---------------------|---------------------|------|---------------------|---------------------|------|---------------------|
| | 1995 ^(a) | 2000 | 2006 ^(b) | 1995 ^(a) | 2000 | 2006 ^(b) | 1995 ^(a) | 2000 | 2006 ^(b) |
| ASSETS | | | | | | | | | |
| Denmark | 12,0 | 33,7 | 35,9 | 3,2 | 7,4 | 15,6 | 79,0 | 82,1 | 69,8 |
| Finland | 9,4 | 29,6 | 32,7 | 2,0 | 12,7 | 10,0 | 82,3 | 69,9 | 76,5 |
| France | 10,3 | 24,5 | 33,7 | 2,4 | 8,7 | 15,7 | 80,9 | 73,8 | 68,2 |
| Holland | 29,9 | 47,2 | 67,6 | 12,9 | 31,3 | 34,5 | 69,8 | 60,2 | 66,2 |
| Germany | 8,0 | 20,1 | 27,5 | 2,1 | 5,2 | 5,7 | 79,0 | 79,5 | 82,9 |
| Portugal | 3,1 | 15,8 | 21,3 | 0,4 | 1,6 | 3,8 | 88,4 | 91,0 | 85,0 |
| Spain | 5,4 | 26,5 | 36,9 | 0,4 | 2,1 | 2,4 | 92,8 | 92,7 | 93,9 |
| Sweden | 24,4 | 38,5 | 55,1 | 4,0 | 11,5 | 4,7 | 86,0 | 77,1 | 92,2 |
| United Kingdom | 24,1 | 60,7 | 60,7 | 2,5 | 0,5 | 0,2 | 90,8 | 99,1 | 99,6 |
| LIABILITIES | | | | | | | | | |
| Denmark | 8,4 | 29,9 | 30,2 | 3,9 | 11,4 | 16,5 | 68,4 | 72,4 | 64,7 |
| Finland | 5,1 | 14,3 | 24,1 | 1,4 | 5,4 | 6,1 | 78,7 | 72,7 | 79,8 |
| France | 9,9 | 13,5 | 22,0 | 2,0 | 5,8 | 13,6 | 83,3 | 69,9 | 61,8 |
| Holland | 16,8 | 34,4 | 40,0 | 12,8 | 28,3 | 31,3 | 56,7 | 54,8 | 56,1 |
| Germany | 3,8 | 12,5 | 13,6 | 3,8 | 12,0 | 8,8 | 49,5 | 51,1 | 60,7 |
| Portugal | 12,9 | 25,6 | 34,2 | 3,0 | 2,6 | 3,2 | 81,2 | 90,8 | 91,6 |
| Spain | 14,7 | 22,7 | 25,6 | 2,8 | 4,0 | 8,7 | 84,0 | 85,0 | 74,5 |
| Sweden | 9,7 | 25,7 | 35,6 | 2,3 | 12,4 | 13,8 | 81,0 | 67,5 | 72,1 |
| United Kingdom | 14,6 | 23,9 | 33,1 | 2,9 | 6,0 | 10,5 | 83,5 | 79,9 | 75,9 |

Notes : (a) Denmark: 1996. (b) Portugal and Sweden: 2005.

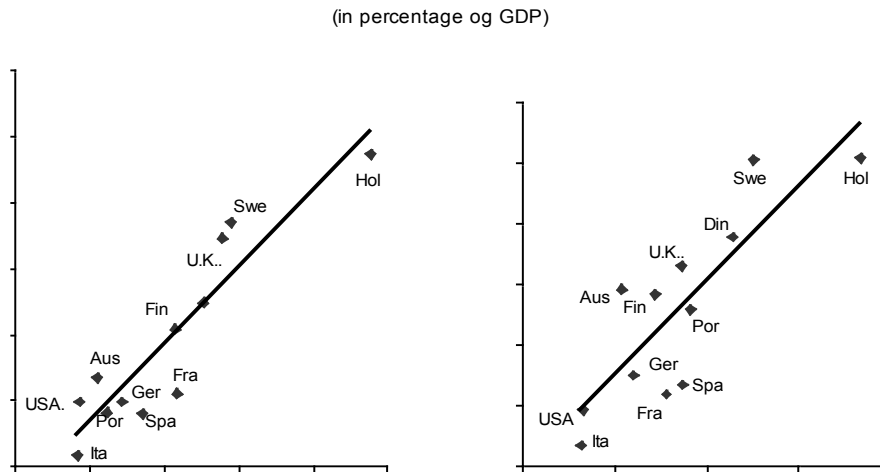
Source : Own elaboration with Eurostat data and Banco de España, *Balance of Payments and International Investment Posición*.

In liabilities, however, there is a different picture. Spain -and to a lesser extent France and the United Kingdom- are to be found among the countries where related finance has been gaining relative weighting, without, however, reaching more than a quarter of the stock total. As was mentioned above, the fiscal issue seems to have been an important factor in this change. But it can also be observed that the opposite situation is found in countries such as Germany, where prior to the beginning of the century, a clear balance has been maintained between both types (a clear sign of high business taxation), but it has been showing more of a preference for share capital in these last few years.

3.2. FDI Income

On the aggregate level, FDI stocks and incomes received are closely related in the different countries studied, as would be expected (graph 2). Taking as reference the levels for the final years of the series (2004-06), it is seen, nonetheless, that the association is somewhat higher in assets rather than liabilities. And if this same exercise is carried out by taking the annual average variation rate, the result would be to continue showing this association.

Graph 2: FDI International Investment Position and income of FDI, 2.004-2.006



Source: Own elaboration with Eurostat data.

Thus, as stocks increase, the revenue obtained by countries has risen, but not in the same fashion (table 4). Spain is one of the countries in which income rose most quickly (from 0.3 to 1.4% of GDP between 1995-98 and 2003-06; on the other hand it was the country with the slowest growth in payments (from 0.9 to 1.2%). A similar situation with regard to income is noticed in smaller countries or joined the international production system later (Austria, Finland and Portugal); but they do not follow the same trend as Spain in payments, since all of them show the highest growth rates.

Measured in GDP terms, the level of revenue places Spain in lower positions on the scale, some way behind Holland, United Kingdom and the Nordic countries, though quite near to France, Germany and Portugal. In payments Spain is also a long way below average, albeit above France and Italy, and level with Germany. And since revenue is higher than payments, in almost every case (except in Portugal), the balances are positive, obviously, as is to be expected in countries with a lengthy record of investment. But it must be added at this point that, except in a small number of cases (United Kingdom, Holland and Sweden), the balance scarcely reaches 1% of GDP. A long way below this percentage come Germany and Spain (0.3-0.2%) and even further away Italy. It is worth stressing in the case of Spain that the usual sign has been a slightly negative one, and that only since 2003 have slightly positive results been obtained.

To sum up, Spain is a country where revenue grew more quickly, but its figures are low in comparative terms; and it was also the country in which payments showed the lowest growth. This, inevitably, must be placed in the context of the weak path followed by foreign capital in the last decade, an issue which we will comment on anew in the next section.

Table 4: FDI Revenues and payments through income,
1.995-2.006

(in percentage of GDP)

| Country | Revenues | | | Payments | | | Balance | | |
|----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c |
| Austria | 0,3 | 0,8 | 2,1 | 0,9 | 1,4 | 2,2 | -0,6 | -0,6 | -0,1 |
| Denmark | | 1,9 | 4,7 | | 1,7 | 3,6 | | 0,2 | 0,9 |
| Finland | 1,2 | 3,2 | 3,6 | 1,1 | 2,1 | 2,7 | 0,1 | 1,1 | 0,9 |
| France | | 1,0 | 2,0 | | 0,3 | 1,0 | | 0,8 | 0,9 |
| Germany | 1,2 | 0,6 | 1,6 | 0,7 | 0,6 | 1,3 | 0,4 | 0,0 | 0,3 |
| Holland | 3,6 | 4,3 | 7,5 | 2,3 | 2,6 | 4,2 | 1,3 | 1,7 | 3,2 |
| Italy | | 0,3 | 0,3 | | 0,4 | 0,3 | | -0,1 | 0,0 |
| Portugal | 0,4 | 0,4 | 1,3 | 1,0 | 1,3 | 2,0 | -0,6 | -0,9 | -0,7 |
| Spain | 0,3 | 0,8 | 1,4 | 0,9 | 1,1 | 1,2 | -0,6 | -0,3 | 0,2 |
| Sweden | | 5,1 | 6,4 | | 3,0 | 4,2 | | 2,0 | 2,3 |
| United Kingdom | 3,4 | 4,4 | 5,9 | 1,4 | 1,9 | 2,6 | 2,0 | 2,5 | 3,3 |
| U.S.A. | 1,2 | 1,2 | 1,8 | 0,4 | 0,3 | 0,8 | 0,8 | 0,9 | 1,0 |

Notes: (a) Portugal: 1997-1998; (b) France, Italy and Denmark: share capital and reinvested profits only.

(c) France and Italy: 2004-06, and Denmark: 2005-06.

Source: Own elaboration with Eurostat data.

4. Implicit FDI profitability

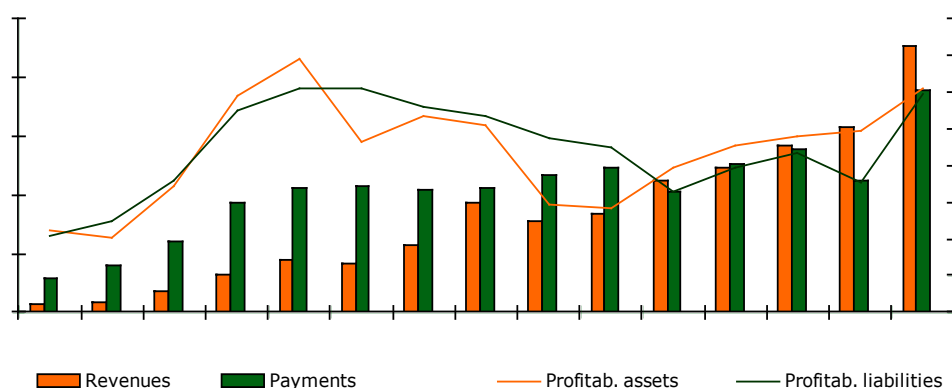
On the aggregate plane considered here, for the period 1993-2007, the annual association between revenue from income and profitability is slight ($R^2:0.16$), greater for the payments, which seems to indicate that the maturity of the stock, higher in the case of liabilities than assets, among other factors, plays an important role in explaining profitability (graph 3).

On the contrary, a great coincidence is noticed on the evolution of asset and liability profitability as both of them moved in line with each other during the period under consideration. The highest rates were achieved in the second half of the last decade, initiating the upward movement almost at the same time, years before the economic crisis of the nineties reduced profitability to its lowest level, and regaining this upward path in the last few years. Evolution was similar but positions alternated: there were hardly any differences at the start (1993-97) and liabilities gained on assets later on (1998-2002), whilst assets did so afterwards (2003-06). It is true, however, that they were much reduced in almost the whole of this period (in eleven of the fifteen years it has swung between -0.4 and +0.8).

In the literature it is pointed out that the lesser maturity of the assets may be associated with lower profitability rates, so that foreign capital in Spain would have an advantage in the first part of the period. As has been shown, this is not the case in the first years recorded. Later on (1998-2002), however, the continuing fall in asset returns could indeed be linked to the speed with which stock was accumulated (even if it had been done to a very large extent

more through takeovers than by greenfield operations, which guarantee an active stake in the market from the beginning. But, not without a certain surprise, the stock has continued its rapid rate of growth since 2003, at the same time there is a noticeable improvement in rates every year, reaching the figure achieved in 1997. Certainly, what happened in this period must not be linked with the favourable economic cycle in the countries where significant parts of the stock are located, but also to an improvement in firms' competitive advantages in their international experience.

Graph 2



The evolution of the profitability of liabilities up to the early years of this century is more worrying because its potential impact on the productive system, since it is a more experienced, mature stock, controlled by multinationals with long experience¹⁹. It is true that there has been some sort of a recovery in rates of profitability since 2004, since incomes have risen without there having been a similar increase in stock, but this is not a solid improvement either, the figures are still below those reached in the nineties. This is only what is occurring on the national plane because showing the situation of other countries is an inestimable aid for making a more accurate evaluation of what has occurred in Spain (table 5).

With all the reservations possible about Eurostat information, one thing is certain: Spain is one of the countries with the lowest implicit profitability figures, for assets and liabilities, throughout the period 1995-2006. Its rates are 4.5 and 3.8, respectively in the last period (2003-06), only exceeded by those for Italy and France, and they are a long way short of countries such as the United States, United Kingdom, Austria and the Nordic countries (almost all of whom are above 10%).

19. Signs of weakness are to be found both in the profitability of the net asset, calculated from the company balance sheets of non-resident firms in the Banco de España's Commercial Performance Information Bureau, particularly between 1994 and 2001. This did not happen to resident firms. For more detail, see Myro, Martín and Fernández-Otheo (2006).

On the evolutionary plane, the highest profitability rates for Spanish assets were achieved in the period 1995-98; the lowest in the following period, to a great extent due to the economic crisis (1999-02), with the average area (4.5%) corresponding to the final period (2003-06). Looking at the path of the rest of the countries in the extreme periods, setbacks (Germany and Portugal, and to a lesser extent the United Kingdom and the United States) are rather more numerous than the advances (Austria, France and even Holland). As in the case of Spain, improvements have been the norm from the beginning of the century to the last few years (except for Finland).

Table 5: Implicit profitability of the stock of FDI assets and liabilities, 1.995-2.006

(in percentage)

| País | Assets | | | Liabilities | | | Balance | | |
|----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c | 1995-98 ^a | 1999-02 ^b | 2003-06 ^c |
| Austria | 4,8 | 7,2 | 10,7 | 12,1 | 10,7 | 11,4 | -7,4 | -3,5 | -0,7 |
| Denmark | | 7,8 | 10,1 | | 8,5 | 8,5 | | -0,7 | 1,6 |
| Finland | 9,0 | 10,4 | 8,7 | 16,5 | 13,8 | 10,4 | -7,5 | -3,4 | -1,7 |
| France | | 4,4 | 4,9 | | 1,7 | 3,4 | | 2,7 | 1,5 |
| Germany | 10,5 | 2,9 | 5,8 | 9,0 | 3,6 | 5,4 | 1,5 | -0,7 | 0,3 |
| Holland | 8,1 | 6,7 | 8,5 | 7,8 | 5,5 | 6,1 | 0,4 | 1,2 | 2,4 |
| Italy | | 1,9 | 2,2 | | 4,3 | 2,9 | | -2,4 | -0,7 |
| Portugal | 10,3 | 3,9 | 6,2 | 6,0 | 5,4 | 5,9 | 4,3 | -1,5 | 0,3 |
| Spain | 5,3 | 4,1 | 4,5 | 5,5 | 5,1 | 3,8 | -0,1 | -1,0 | 0,8 |
| Sweden | | 12,0 | 12,1 | | 10,7 | 9,0 | | 1,4 | 3,1 |
| United Kingdom | 14,0 | 9,7 | 10,8 | 9,1 | 7,6 | 8,3 | 5,0 | 2,0 | 2,6 |
| U.S.A. | 13,0 | 10,3 | 11,2 | 6,0 | 3,6 | 6,4 | 7,0 | 6,6 | 4,9 |

Notes: (a) Portugal: 1997-1998; (b) France, Italy and Denmark: share capital and reinvested profits only.

(c) France and Italy: 2004-06, and Denmark: 2005-06.

Source: Own elaboration with Eurostat data.

As far as the profitability of the liabilities is concerned hardly any country can be found in which there has been an advance between extreme periods (France and the United States); though there are some with similar figures (Austria and Portugal); and Spain is situated among the countries where the most significant regressive movements have taken place (31%), though at a rather lesser rate than Germany and Finland. If we come nearer to our days (from 1999-02 to the present time), Spain's comparative situation worsened to some extent, since along with Italy, Finland and Sweden, they are the only countries where retrenchment of the figures continued.

Differences in profitability tend to be more positive than negative over time, and indeed, there are only a few countries in which in the period 2003-06 there was a negative net balance (small ones for Italy and Austria, and larger for Finland). Spain, normally with a negative sign, has changed to having a positive balance in this last period, albeit a modest one (0.8

percentage points) compared to Holland, Sweden, United Kingdom and United States) more than 2 points).

The fact that the United States still maintains such a high positive differential in recent years (4.9 percentage points, less in any case than the 7-point figure achieved between 1995-98), is certainly an atypical event, since it casts doubt on the lesser efficiency of the FDI received by that country. Thus, it would be difficult to explain the buoyant path of the flows in the last decade; and what is more, this occurs not only on the aggregate plane but also, to a large extent, over all sectors and countries²⁰. In fact, this issue has been highly controversial, with other arguments being employed such as problems of accounting for the FDI stocks issued (dark matter argument²¹), the different maturity of the latter and the one received, of the fiscal question affecting the inward FDI²².

But it is necessary to delve further into the ins and outs making up profitability. To what extent these aggregate results are affected by the makeup of FDI by instruments (shares and other forms of stakeholding and inter-company loans) is a relevant question in countries such as Spain, where there have indeed been signs of substitution processes between them, as was mentioned in the previous section. The choice of one option or another for financing FDI operations takes place after weighing up different aspects, and, in particular, the differences in interest rates between the country of origin and the host or the fiscal treatment of business returns, also at both poles. The intention here does not go beyond observing what happens with the implicit profitability corresponding to each FDI instrument, comparing differences between countries and in the case of Spain, whether the figures can explain to some extent changes in the strategy involved in the composition of the stock of liabilities.

There is a clear early finding, bearing in mind the restraints imposed by the lesser amount of information available: implicit profitability for assets and liabilities is, as a rule, higher in shares and other forms of stakeholding than in inter-company loans, the rate of which tends moreover to fall over time; that is, the latter exert downward pressure on profitability (table 6). If assets are analysed separately the corresponding figures show some singularities. For example, differences in profitability of both FDI instruments are very marked, even in those countries in which their relative importance is similar (Holland, particularly). For Spain, nevertheless, where there is very little influence from inter-company loans, the figures are very close in the first two periods (data are not available for 2003-06).

Regarding the profitability of the liability, what we said about the asset in terms of there being little similarity in the values obtained by countries in each instrument is partially just as true in the case here. Holland is, once again, one of the countries showing the greatest contrast,

20. Higgins, Klitgaard and Tille (2005).

21. Haussmann, R. and Sturzenegger (2005).

22. Other arguments used, according to Higgins, Klitgaard and Tille (2005), are the following: a) firms in the United States are more efficient than foreign ones, and there is some evidence in that respect; moreover, they would have been successful as investors in well-run subsidiaries. b) Foreign firms in United States are more recent than United States ones abroad, and would have had less time to develop market power. However, this hypothesis loses force as assets in that country mature. c) Foreign firms in the United States would have faced greater competitive pressure, and thus had their margins reduced. And d) Differences in fiscal arrangements may lead profits obtained in the United States to be assigned to the host country or another, or else, to persuade American firms to assign profits from activities carried out to subsidiaries in third countries.

See, likewise: Mataloni, R.J. (2000) and Heath (2007).

and Germany the one with the greatest similarity. Both countries show a strong presence of inter-company loans. In Spain, where this instrument has been showing much more often, the distance between profitability is very small, it is one of the lowest in the period 1999-02 (only above Holland) and has followed a downward path. This fact is important because, in principle, it does not appear to support the process of substitution of share capital by related debt, which took place in Spain around the turn of the century.

Table 6: Implicit FDI profitability from instruments,
1.995-2.006

(in percentage)

| Country | Assets and other forms of stakeholding | | | Inter-company loans | | |
|--------------------|--|---------|---------|---------------------|---------|---------|
| | 1995-98 | 1999-02 | 2003-06 | 1995-98 | 1999-02 | 2003-06 |
| Assets | | | | | | |
| Finland | 10,0 | 12,7 | 12,5 | 5,4 | 5,0 | 2,0 |
| France | | 6,1 | 6,3 | | | |
| Germany | 11,7 | 2,6 | 6,5 | 6,0 | 4,0 | 2,3 |
| Holland | 10,6 | 9,1 | 10,9 | 3,1 | 2,7 | 4,2 |
| Portugal | 10,9 | 3,9 | 6,8 | 5,6 | 4,8 | 2,7 |
| Spain | 5,3 | 4,2 | | 5,5 | 3,7 | |
| Sweden | | 13,0 | 12,3 | | 7,1 | 10,9 |
| United Kingdom | 13,8 | 9,1 | 10,8 | | | |
| Liabilities | | | | | | |
| Finland | 19,7 | 16,1 | 12,7 | 4,6 | 5,6 | 3,5 |
| France | | 2,4 | 4,5 | | | |
| Germany | 11,9 | 1,6 | 5,3 | 6,1 | 5,4 | 5,5 |
| Holland | 11,2 | 7,9 | 8,2 | 3,2 | 2,1 | 3,4 |
| Portugal | 6,7 | 5,5 | 6,5 | 3,9 | 5,5 | 1,8 |
| Spain | 5,6 | 5,4 | | 4,8 | 3,8 | |
| Sweden | | 11,5 | 10,1 | | 6,7 | 6,7 |
| United Kingdom | 9,2 | 7,2 | 9,7 | 8,4 | 9,0 | 5,1 |

Note: Portugal: 1997-1998.

Sources : Own elaboration with Eurostat data and Banco de España , *Balance of Payments International Investment Posición* .

As has been seen throughout the section, if we take as reference the end of the 90s' crisis, in at least four countries there has been a deterioration in the profitability rates of the liability for the whole of the FDI, with Spain being one of the most affected. Although many different factors play a part in determining the whole of FDI, the profitability obtained probably holds a privileged position in the evaluation of how attractive the locating of EMNs is, thus reflecting in one way or other on different planes, often superimposed ones, of FDI: investment flows, divestments and relocations and impact on production activity. For example, in the case of Spain, the steady reduction of rates, in contrast with other neighbouring countries, in no way comes as a surprise when observing other manifestations of the presence of foreign capital: ever-weaker capital inflows to particular manufacturing sectors, stagnation in terms of the added value generated in the invested firms, a generalised albeit slight reduction in

net fixed assets which is noted in various sectors with foreign investment since 2003, and even, the presence of divestments and relocations of firms and industrial installations, backed up, in most cases by asset sales to residents, rather than in divestments related to the selling off of assets²³.

4.1. A Note on FDI Stocks and Profitability with Data from Firms' Balance Sheets

These pages have devoted considerable space to clarifying the contents of available statistical sources, with their advantages and limitations, and to commenting on the positive and negative aspects of stock evaluations. The aim was merely to present the findings obtained in a framework which can be understood, with relevant nuances, and increase our knowledge of a topic which has hardly been studied. With the aim of wrapping up everything hitherto said, new information is presented for Spain, outside the balance of payments field, stemming from the investing firms themselves. It is a particularly useful source since it enables aspects not previously considered, as the necessary separation between productive and brokering FDI (SPEs), impossible to do from the perspective of the balance of payments on the plane of stocks.

The information comes from the reports of the Ministry of Industry, Trade and Tourism (Dirección General de Comercio de Inversiones), responsible for the company reports. It is produced from the business reports which have to be presented to the Ministry (Register of Foreign Investment) every year (there are only data for the period 2003-06). As far as these pages are concerned, FDI stocks are built up by the funds themselves plus inter-company loans, and revenue, from the after-tax results, which represents a good approximation to what we have been calling implicit profitability. In the data provided by firms the global results of the invested firms are not registered, but rather, just that proportion corresponding to residents and non-residents on the basis of their stake in the share capital. This is an important aspect to take into account when comparison with other sources is made.

The first step consisted of comparing stocks of assets and liabilities with those of the Spanish Balance of Payments (table 7), with the following result. The stocks values provided by the Register are fewer (between a third and a fifth for assets and liabilities, respectively). These differences, the explanation of which escapes these pages, do not mar the comparison.

The following have attempted to clarify different questions concerning the evaluation of FDI, for example, the segregation of those stocks not linked to the Spanish productive system²⁴, that is, the activity of those SPEs based in Spain and corresponding the most to non-residents, and their impact on FDI. In this aspect the fiscal advantages in the way business returns abroad are treated are fundamental.

23. See: Myro, Martín and Fernández-Otheo (2006), Myro et al. (2007) and Myro and Fernández-Otheo (2008).

It is worth pointing out that, according to some of the studies, there are not infrequently cases of relocation in which an important reason is the drop in profitability, thus justifying the transfer to other places where it is higher.

24. Investment really linked to the Spanish productive system represents most of the total of FDI stocks (around three quarters of the total for assets and six points fewer for liabilities). The speedy expansion of the total asset stock, from 2003, has been due solely to productive FDI. In liabilities, on the other hand, the weak reduction of stock has been caused by the SPEs, since productive FDI has hardly varied in the last four years. Both planes confirm, in any case, the asymmetry of different FDI behaviour as observed when the balance of payments data were analysed.

Table 7: FDI stocks and profitability in foreign and domestic firms according to the Spanish Foreign Investment Register, 2.003-2.006

| Variable | FDI no SPEs | | | | FDI SPEs | | | | Total | | | |
|---|-------------|------|------|------|----------|------|------|------|-------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 | 2003 | 2004 | 2005 | 2006 | 2003 | 2004 | 2005 | 2006 |
| <i>FDI stock (% GDP) ^a</i> | | | | | | | | | | | | |
| Assets | 15,9 | 16,4 | 20,2 | 22,9 | 6,9 | 6,7 | 6,8 | 7,0 | 22,8 | 23,1 | 27,0 | 29,8 |
| Liabilities | 22,4 | 22,4 | 23,3 | 23,0 | 6,3 | 6,0 | 5,2 | 4,8 | 28,7 | 28,4 | 28,5 | 27,8 |
| <i>After tax results (% GDP)</i> | | | | | | | | | | | | |
| Assets | 0,8 | 1,3 | 2,0 | 2,9 | 0,7 | 1,1 | 1,2 | 0,5 | 1,5 | 2,4 | 3,2 | 3,3 |
| Liabilities | 1,2 | 1,5 | 1,6 | 1,9 | 0,1 | 0,4 | 0,6 | 0,1 | 1,3 | 1,8 | 2,3 | 2,1 |
| <i>Implicit profitabilit (%) ^b</i> | | | | | | | | | | | | |
| Assets | | 8,8 | 12,9 | 15,3 | | 17,1 | 20,1 | 7,7 | | 10,5 | 13,8 | 12,4 |
| Liabilities | | 7,0 | 7,9 | 8,9 | | 6,1 | 11,3 | 3,0 | | 6,3 | 8,0 | 7,2 |

Notes: (a) Stock funds plus inter-company loans. (b) After tax results among stocks of assets and liabilities of the previous year.

Source: Own elaboration from data from Dirección General de Comercio e Inversiones, *Direct Investment Foreign Position 2003-2006*.

The results can be summarized as follows: First, the after-tax results rose both in assets and liabilities, but the former did so to a much greater extent than the latter; and as with the stock, the rate was established by FDI no SPEs. Second and more important, implicit profitability is much higher than in the balance of payments, especially in the case of assets; and the latter were a good deal higher (12.3% on average for the period 2004-06) than the liability ones (7.2%), figures a long way distant (particularly with the assets) from those achieved by means of the balance of payments. This wide variance in results between both stocks, which is certainly anomalous, joins that observed for the United States, as was pointed out at that moment, and will have to be analysed by studying other parameters, particularly the sectoral and geographical makeup of the stocks and incomes. Moreover, the results of the SPEs, which certainly follow an erratic path, would have exerted some slight pressure on the aggregate profitability rates in 2004 and 2005, but not in 2006. So, with these returns for the liabilities, the lack of attractiveness of the Spanish economy for foreign capital has to be put on hold for the moment.

5. Conclusions

A quarter of a century has been enough for Spain to become an economy completely integrated in international production, more as a result of it having an extraordinarily expanded presence abroad with FDI assets than from the leisurely path of liabilities controlled by foreign capital, in balance of payments terminology. This has led to Spain showing, at this moment in time, a slightly positive balance in FDI stock.

But it is necessary to go further, to move to another part of the payment balance sheet to find out what has happened with revenue and payments by FDI income and about how efficiently (in terms of implicit profitability) the asset and liability stocks have been used.

This is convenient because revenues obtained and profitability are associated with flows and stocks, and with their future, so this could explain the behaviour of resident and non-resident firms, and the expansion or contraction of their productive activities. With the prudence needed when dealing with a complex topic, and one which is scarcely known, with measurement and information problems which are difficult to solve, these pages offer some initial answers.

To achieve it, first the subject of the stocks has been dealt with. Beginning with assets, Spain is one of the countries which showed the highest growth; it is also the case that there was a delay in carrying out her integration into the international sphere of production. Since this country still has the need to have foreign capital, the problem arises in the stock of liabilities: foreign presence has increased in Spain, but less than usual in other developed countries.

The following step is to analyse the FDI incomes. The findings follow the lines of the stocks: Spanish income by FDI rose by very much more than the average, but its figures (in GDP terms) are low in comparative terms. It was also the country in which payments showed the least growth, which, inevitably must be related to the disjointed path followed by foreign capital during the last decade. In a similar way, to the net balance of stocks, that of incomes has been positive in these last few years.

Comparing stocks and incomes, an initial idea can be gained of the efficiency of the investment process, by means of implicit profitability (obtained from the coefficient of revenues or payments and the previous year's stocks). It is worthwhile pointing out, to begin with, that differences between the asset profitability and the liability of Spanish FDI are small: in favour of the latter around the turn of the century, and in favour of the asset from 2003. A second important aspect is that both profitability rates have been a good deal lower than those obtained by Community countries who have been used for purposes of comparison, and, of course, by the United States. The third aspect alludes to their path; whereas a firm recovery by the assets' profitability rates can be seen as years went by, those of the liability, in the period 2003-06, underwent one of their lowest moments. This inevitably has to be placed in relation with the not at all favourable investment flows and the presence of divestments and relocations, more usual in manufactures. Finally, when the rates for FDI instruments are disaggregated, it is observed that asset and liability profitability is higher in shares and other forms of stakeholding than in inter-company loans, so this result still does not provide a convincing explanation of the substitution process of shares by related debt, as detected around the turn of the century.

The balance of payments route has been of use to show clearly the profile of the investing process. The use of a second way, also stemming from official areas (Register of Foreign Investments) albeit with data from the investing firms themselves has been of particular use in comparing the findings obtained, while at the same time allowing to a certain extent a breakdown of the boundaries of the productive part of FDI from that of brokering, linked to SPE activity belonging to non-residents.

It is necessary to point out, however, that the approach to implicit profitability has been made this time by putting the results in the numerator after tax, and in the denominator own funds plus intercompany loans. In this manner the criterion used comes closer to the balance of payments data. The results obtained give a considerable boost to the profitability figures

which have previously been used, and basically back up the profile described: excellent performance of the asset liability in FDI no SPEs (from 9 to 15% between 2004 and 2006), and widening gaps between one and the other, in favour of the asset. Thus we see here a reproduction of the polemical case of the United States. In observing the arguments wielded in order to explain it, it does not seem that most of them would be of use for Spain, and thus there is no answer until new information appears regarding the sectoral and geographical composition of stocks and incomes.

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