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FOREIGN DIRECT INVESTMENT AND EU COMPETITIVENESS

TRENDS, IMPACT, AND POLICY RECOMMENDATIONS

POLICY PAPER

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AUTHOR:
Patricia Gabaldón

Professor of Economic Environment,
Business School,
IE University

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01. EXECUTIVE SUMMARY

> Driven by persistent macroeconomic uncertainty caused by high inflation, rising interest rates, and geopolitical tensions, global Foreign Direct Investment (FDI) has been in decline in the last three years.[1] In this scenario, during this period, investment patterns have shifted toward emerging areas such as digital infrastructure, green energy, and semiconductors.

According to the UNCTAD World Investment Report 2024, the US was in 2023 the world's top FDI destination, followed by China and Singapore. The EU as a whole ranked fourth. Spain stands out as a promising destination for FDI within the EU due to its competitive energy costs and skilled labor force.

Foreign investors have increasingly voiced concerns about the EU's regulatory environment, citing burdensome rules, public tender barriers, and lengthy investment screening. Also, the lack of integration in the EU's capital markets hampers access to long-term funding for foreign-led greenfield projects.

To enhance the EU's appeal to foreign investors, recommended policies include developing a more stable and predictable investment environment, deepening the integration of capital markets, simplifying and improving the regulatory framework, and enhancing public-private synergies.

02. INTRODUCTION

> Spain has established itself as a key destination for foreign direct investment (FDI) within the EU, attracting over €28 billion in 2023. That year the US was the primary investor, accounting for nearly 29% of total inflows.

These investments have generated significant economic benefits, including job creation, regional development, and technological advancements, particularly in digital infrastructure and logistics.

While foreign direct investment brings clear benefits to Spain, it also raises important policy considerations related to taxation, market competition, and the country's strategic position within the broader European framework. The EU is increasingly navigating a complex global landscape marked by intensified competition from external markets and evolving geopolitical dynamics, particularly in relation to major global powers such as China and the US. These challenges were underscored by the unprecedented tariffs announced by the administration of US President Donald Trump in April 2025. In this context, fostering investment, innovation, and productivity will be critical to safeguarding Europe's economic resilience and social cohesion in the years ahead.

These topics were discussed in detail during a work lunch hosted by the Center for the Governance of Change (CGC) at IE University, with the strategic support of Amazon. The closed-door meeting was held at IE Tower in Madrid on January 30, 2025. It brought together 22 high-level stakeholders[2] from government, industry, and academia. This document explores the investment landscape in Europe, highlighting key trends, challenges, and policy recommendations to sustain its competitiveness. It examines how Spain and the EU can leverage FDI for long-term economic growth while balancing regulatory and strategic concerns in an evolving global market.

FDI AND COMPETITIVENESS: A STRATEGIC NEXUS FOR THE EUROPEAN UNION

03

03. FDI AND COMPETITIVENESS: A STRATEGIC NEXUS FOR THE EUROPEAN UNION

> Competitiveness, defined as the ability to efficiently produce goods and services, attract investment, and sustain economic growth while improving living standards, is of course crucial for the EU and Spain.

It underpins the EU's capacity to create jobs, foster innovation, and enhance economic resilience in an increasingly globalized and technologically advanced world. A competitive Europe can maintain its economic sovereignty, ensuring that it remains a leader in global trade and innovation rather than becoming dependent on external forces. Factors such as innovation, infrastructure, productivity, business environment, and human capital play a substantial role in shaping competitiveness.

The importance of competitiveness for the EU is not a new concern. Back in 2007, the Lisbon Treaty indicated the EU's commitment to enhancing competitiveness by strengthening economic governance, promoting innovation, and deepening market integration. Building on the Lisbon Strategy (2000), which aimed to make the EU the most competitive knowledge-based economy, the treaty emphasized the need for a more efficient Single Market and better coordination of economic policies among member states. It introduced the legal basis for the European Council to guide economic policy, ensuring alignment with long-term competitiveness goals.

The Lisbon Treaty also enhanced the EU's ability to regulate competition, prevent market distortions, and foster technological innovation through research and development initiatives. Additionally, it reinforced the role of the European Central Bank in maintaining financial stability, crucial for investor confidence and economic resilience. The Treaty laid the foundation for policies aimed at improving the EU's global competitiveness in the face of emerging economic powers such as China, India, and Brazil, which were rapidly expanding their industrial and technological capabilities and reshaping global trade dynamics.

In 2024 two important reports, authored by Enrico Letta and Mario Draghi, emphasized the need to reinforce the competitiveness of the EU and attract FDI.

The first report, published in April 2024 by Enrico Letta (former Prime Minister of Italy and current Dean of IE University's School of Politics, Economics, and Global Affairs), was titled "Much More Than a Market—Speed, Security, Solidarity: Empowering the Single Market to Deliver a Sustainable Future and Prosperity for All EU Citizens". **This report underscores the urgency of:**

- **Deepening integration** in key sectors such as financial services, energy, and telecommunications.
- **Fostering innovation** by adding a 'Fifth Freedom' (the free movement of knowledge) to the existing four freedoms of the Single Market (goods, services, capital, and people).
- **Strengthening governance** within the EU.

A key idea from Letta's report is the creation of a 'Savings and Investment Union' to use both private and public money to support the EU's main goals. This plan aims to direct Europe's large private savings into useful investments instead of letting around €300 billion leave the region each year, mostly to the US. The report also points out that the EU's capital markets are too fragmented, making it harder to invest efficiently and less attractive to foreign investors. To fix this, it suggests unifying laws, regulations, and market practices across EU countries to create a smoother, more connected capital market. The report indicates that deeper integration and consolidation in capital markets could create a more attractive environment for FDI by enabling European companies to achieve the scale necessary to compete globally. It also emphasizes the need for the EU to ensure effective implementation of rules on the control of FDI in strategic sectors, balancing openness with the protection of critical industries.

Shortly after Letta's report, in September 2024, Mario Draghi (former President of the European Central Bank and former Prime Minister of Italy) presented a report titled "The Future of European Competitiveness—A Competitiveness Strategy for Europe". This report identifies several key challenges facing Europe. One major issue is the innovation gap, as Europe lags behind the US and China in advanced technologies such as semiconductors, AI, and biotech, due to regulatory hurdles, limited venture capital, and difficulties in scaling startups within the EU. Another critical challenge is balancing decarbonization with economic growth. Draghi's report warns that if the transition is not managed effectively, Europe could become weaker, especially if it relies too heavily on subsidized technologies from countries like China. The report also highlights Europe's economic security risks, illustrating how reliance on other countries for energy, technology, and key materials makes it vulnerable to external risks and threats.

Draghi's report discusses the role of FDI in enhancing Europe's economic standing. It emphasizes the need for the EU to create a more attractive environment for FDI by fostering deeper integration in key sectors such as financial services, energy, and telecommunications. This includes aligning regulations and removing barriers that hinder investment across EU countries. The report advocates for a more coordinated strategy for foreign investments, ensuring that Europe attracts investors while also protecting its economy and independence. Similar to Letta's proposals, Draghi stresses the importance of completing the capital markets union to facilitate the movement of capital and appeal to foreign investors. A more unified and efficient financial system will enable the EU to remain competitive and more attractive to investors.

Draghi's report discusses the role of FDI in enhancing Europe's economic standing. It emphasizes the need for the EU to create a more attractive environment for FDI by fostering deeper integration in key sectors such as financial services, energy, and telecommunications.

EMERGING FDI TRENDS IN THE EU

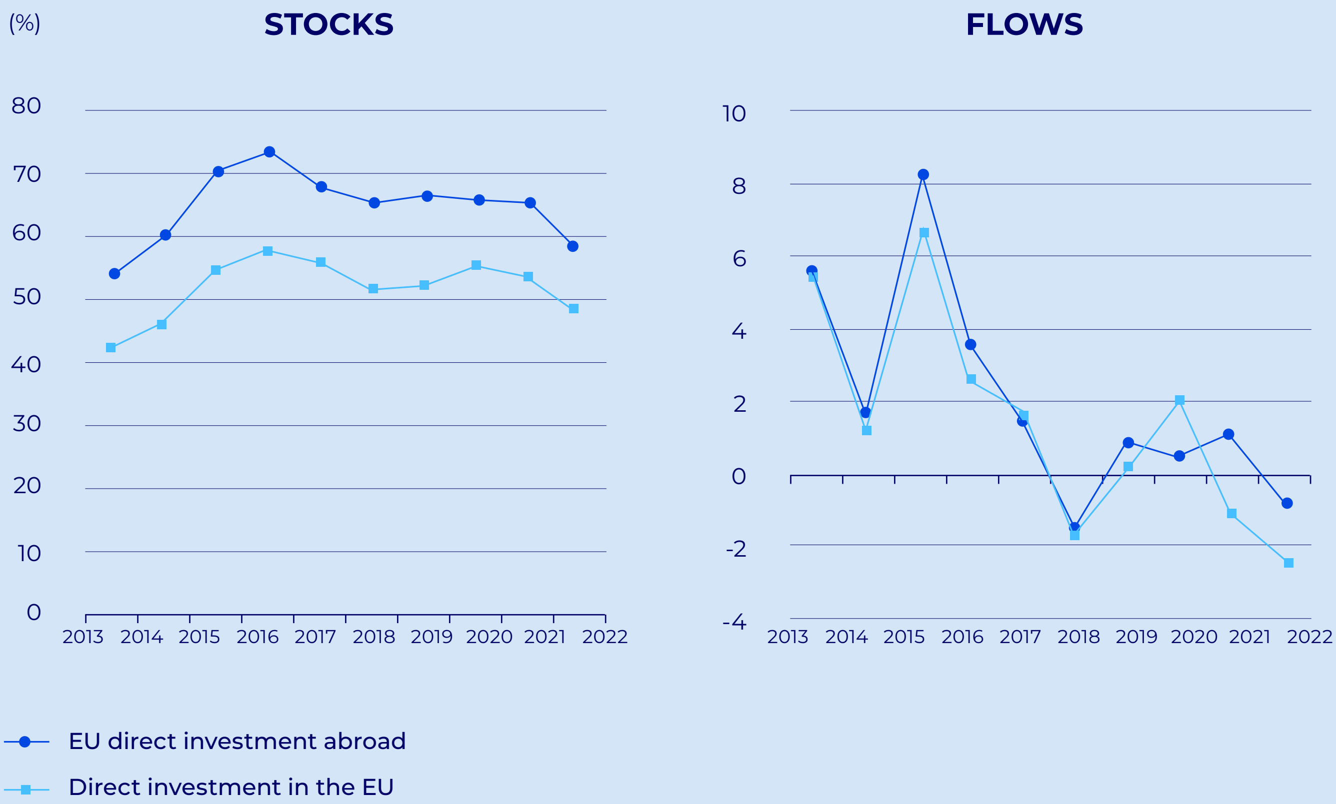
04

04. EMERGING FDI TRENDS IN THE EU

> Historically, the EU and other advanced economies have been leading investment destinations.

However, since the late 1990s and early 2000s, emerging market economies have captured an increasing share of inward FDI, reflecting their rising economic influence. Notably, the EU's share has declined since 2008, likely due to shifting investor preferences and economic uncertainties. Similarly, while the EU was once a major source of global FDI, its share has gradually diminished as emerging market economies became more prominent investors. These trends underscore the growing role of emerging economies in both attracting and sending FDI. The Great Recession, triggered by the financial crisis of 2007-08, severely impacted the EU's capacity to attract FDI. The economic downturn resulted in reduced investor confidence, weaker corporate investment, and slower economic growth, which in turn lowered FDI inflows across the region (see Graph 1).

Graph 1.
Stocks and Flows of FDI in the EU.



Source: Eurostat

Examining FDI stocks and flows within the EU reveals steady growth between 2013 and 2017, followed by a plateau and decline from 2018 onwards, with a sharper drop in 2022. Inward investment flows in the EU showed volatility, with peaks in 2015 and 2017, followed by a sharp decline and even negative flows in 2022, suggesting potential capital withdrawals or a slowdown in cross-border investment activity. This volatility likely reflects economic and geopolitical tensions, such as Brexit and the COVID-19 pandemic.

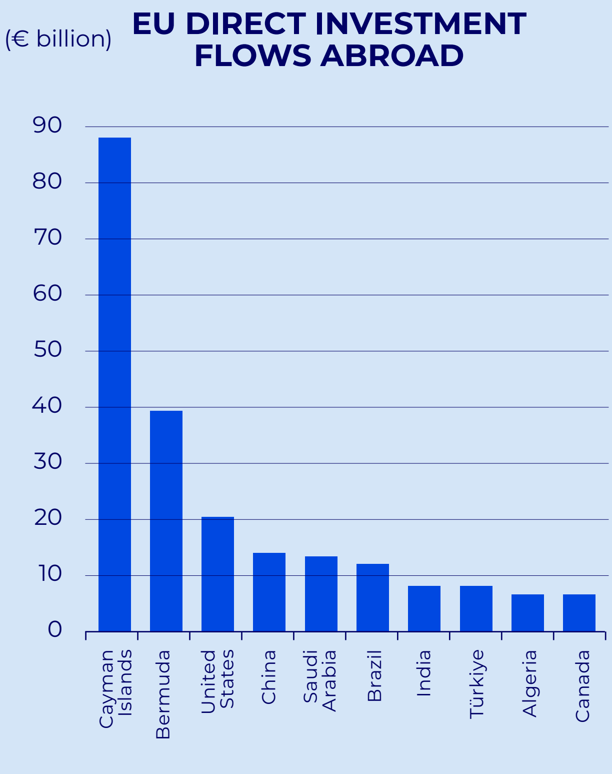
According to EY's European Investment Monitor 2024, in 2023, the Software and IT Services sector led inward FDI in Europe with 954 projects, accounting for 17% of total FDI, though experiencing a 19% decline compared to 2022. Business Services and Professional Services ranked second, also seeing a significant drop of 27%.

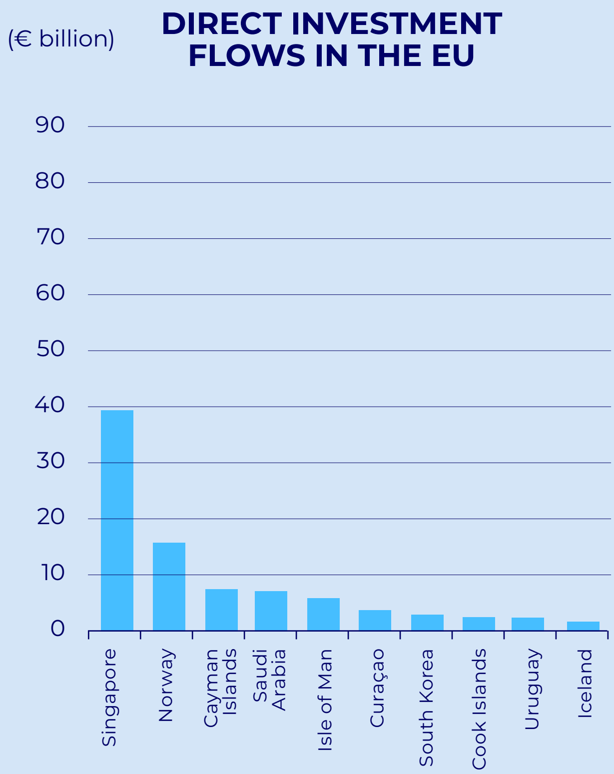
In the same report by EY, France led in inward FDI projects in 2023 with 1,194 projects, despite a 5% decline from 2022. The United Kingdom saw a 6% increase, reaching 985 projects. Germany experienced a 12% drop, while Turkey recorded the highest growth (+17%). Spain (-6%) and Poland (-3%) remain key FDI destinations. Western European countries remain dominant, with Turkey emerging as an increasingly attractive investment hub.

The analysis of extra-EU FDI partners for 2022 by Eurostat (2024) reveals that the Cayman Islands is the largest recipient of EU direct investment abroad, driven by financial services and investment vehicles. Other major destinations include Bermuda, the US, China, and Saudi Arabia. Singapore leads as the top source of FDI inflows into the EU, followed by Norway and the Cayman Islands (see Graph 2). These destinations show the importance of offshore financial hubs as a way to maximize international investments.

Graph 2.
Top 10 Extra-EU FDI Partners for 2022.

Note: the sum of FDI flows to or from the top 10 partners may be greater than the total value of extra-EU flows due to divestment being greater than investment for some partners that are not shown.





Source: Eurostat

WHY HAS FDI DECREASED RECENTLY IN THE EU?

05

05. WHY HAS FDI DECREASED RECENTLY IN THE EU?

In January 2025, the European Commission introduced the 'Competitiveness Compass', a roadmap to position Europe as a leader in future technologies, services, and clean products and become the first climate-neutral continent.[3]

This initiative builds on the Draghi report, seeking to translate its recommendations into concrete actions. As Ursula von der Leyen, President of the European Commission, has stated with regards to the Compass, "Europe has everything it needs to succeed in the race to the top. But at the same time, we must fix our weaknesses to regain competitiveness".[4]

The EU possesses the world's largest network of trade agreements, encompassing 76 countries.[5] However, the EU is not exempt from the negative consequences of the increasingly changing geopolitical landscape. Many countries today are tending to take trade decisions based on geopolitical rather than purely economic considerations.[6]

The recent decline in FDI in the EU has been driven by a combination of restrictive monetary policies, geopolitical uncertainties, and structural changes in the international investment flows. These factors have collectively contributed to a significant contraction in global FDI, in Europe and beyond, affecting both developed and emerging economies.

One of the primary drivers of declining FDI flows globally has been the tightening of monetary policies by central banks worldwide, in response to inflationary pressures. Since 2022, the US Federal Reserve, the European Central Bank, and other major banks have increased interest rates, making borrowing more expensive. This has made it harder for multinational companies to fund big international investments. At the same time, rising bond yields have led investors to choose safer, fixed-income options instead of riskier FDI, further slowing global investment flows. In 2023, these macroeconomic trends led to a 15% decline in global net FDI flows, which fell to just over €1 trillion, according to UNCTAD (2024). Developed economies were particularly affected, as investment in advanced manufacturing, real estate, and high-tech industries slowed due to the rising cost of capital and economic uncertainties.

Geopolitical tensions have exacerbated the slowdown in FDI. Trade conflicts, sanctions, and shifts in supply chains have compelled multinational companies to reconsider their investment strategies. The US-China trade disputes, concerns over technology security, and disruptions in the global supply chain have made investors more cautious.

At the time of writing, it is difficult to assess the impact of the tariffs imposed by the US government under President Donald Trump on global FDI flows. It is possible that these shifts in US trade policy may create enough uncertainty to make the EU appear relatively more stable, and thus a more attractive destination for foreign investment, but this remains to be seen.

The EU possesses the world's largest network of trade agreements, encompassing 76 countries

For the EU, these global trends have led to an even sharper decline in FDI inflows. According to Eurostat's latest figures, in 2024 the EU experienced a negative net inflow, indicating that disinvestments by foreign companies surpassed new investments. Recent decreases in FDI in the EU can be attributed to several interrelated factors:

1

REGULATORY ENVIRONMENT

Foreign investors have expressed concerns over increased regulatory burdens within the EU. Indeed, this is one of the most frequently cited concerns by participants in the January 30, 2025 meeting held at the IE Tower. **Challenges such as barriers to public tenders, reduced access to subsidies, and prolonged investment screening processes have been identified as deterrents.** For instance, Chinese companies operating in the EU have reported a perception of an increasingly unfair and closed market.

The EU's complex regulations are discouraging foreign investors. This has been one of the most frequently expressed opinions by the various participants in the IE Tower meeting. They encounter more paperwork, higher costs, and legal uncertainties. While the EU has always promoted itself as an open market, recent rules have made it more difficult to do business, particularly for non-EU investors. One major concern is the complexity of EU regulations and compliance requirements, which differ among member states. Foreign companies experience slow approvals, heavy bureaucracy, and varying laws across countries, making it more challenging to invest in the EU than in places like the US or China. This is particularly difficult for industries that require licenses, environmental reviews or competition law approvals before initiating projects.

2

LACK OF INTEGRATION IN CAPITAL MARKETS

The absence of a fully integrated capital market in the EU remains a significant barrier to attracting FDI, as indicated by many participants in the IE Tower meeting, particularly those from the private sector. Despite the progress made under initiatives such as the Capital Markets Union, the EU's financial system continues to be fragmented, with national regulations, varying tax policies, and differing legal frameworks creating challenges for foreign investors. This fragmentation not only increases the cost of capital but also reduces the efficiency and accessibility of financing options, making the EU a less attractive destination for FDI compared to regions with more harmonized financial markets, such as the US.

One major problem with the EU's fragmented capital market is the difficulty of raising funds across borders. Foreign investors face complex regulations and inconsistent financial rules, making investment planning harder. Unlike in the US, where companies have easy access to large financial markets, European firms and investors must deal with multiple national regulations, increasing costs, and legal risks. The lack of a unified financial system in the EU makes it harder for foreign companies to secure long-term funding for greenfield projects. Without competitive financing, investment in infrastructure, manufacturing, and research suffers. Venture capital and private equity markets are also weaker than in the US, limiting funds for startups and fast-growing businesses.

Another issue is the high cost of borrowing. Interest rates and loan terms vary across EU countries, so foreign investors face different financing costs depending on location. This uncertainty makes the EU less attractive compared to more stable financial environments.

Furthermore, the absence of a truly integrated banking and investment system has limited the EU's ability to compete with other global financial hubs. While cities like London, New York, and Singapore offer highly liquid, transparent, and accessible financial markets, European financial centers remain fragmented, reducing the region's ability to attract large-scale foreign investments.

3

THE ROLE OF PUBLIC INVESTMENT

Public investment in the EU plays a crucial role in shaping FDI inflows, as it can both attract and deter foreign investors, depending on how it is structured, targeted, and implemented.

Advocates of public investment and public-private partnerships indicate that public investment in infrastructure (such as transport, digital networks, and energy grids) can attract foreign investors by improving connectivity and lowering business costs. Well-developed logistics and digital systems make the EU more appealing for FDI. Public funding for research and development (R&D) helps build innovation hubs, attracting high-tech industries and startups. Programs like Horizon Europe and the European Innovation Council support advanced research, often involving foreign companies seeking collaboration. Investment in education and workforce training ensures a steady supply of skilled workers, which multinational companies value. Strong talent in AI, clean technology, and advanced manufacturing favor competitiveness in the EU. Public spending on sustainability and digitalization, backed by initiatives like the European Green Deal and NextGenerationEU, creates opportunities in renewable energy, AI, and electric vehicles. Lastly, governments offering tax breaks, grants, and subsidies for key industries cultivate a favorable investmentclimate. Stability in fiscal policies and transparent governance structures also instill confidence among foreign investors.

However, other participants during the IE Tower meeting were hesitant about the implication of the public sector, as they consider that public investment can also discourage FDI. Excessive regulations and bureaucratic hurdles to work with public administrations make compliance costly for investors. Heavy government involvement in sectors like energy and telecoms may limit private investment and competition. Finally, the unequal distribution of public funds across EU countries can create investment gaps, weakening the EU's appeal as a unified market.

SPAIN: A GROWING HUB FOR FDI

06

06. SPAIN: A GROWING HUB FOR FDI

Spain continues to solidify its role as a key recipient of FDI in Europe (see Graph 3). In 2023, foreign investment in Spain exceeded €28.21 billion, according to the Foreign Investment Register of Spain's Secretary of State for Trade.[7] In a nutshell, the US was the largest investor, contributing 28.9% of total FDI, followed by the UK (13.1%), Germany (10.6%), and France (9.2%). FDI by sector was as follows: 54.3% of foreign investment went into services, while the industrial sector attracted 42.2% of total FDI. The construction sector accounted for 3%. Key industries receiving significant investment included wholesale trade, telecommunications, electricity, and fuels, reinforcing Spain's appeal as a strategic investment hub.

There are several factors that have made Spain highly attractive to international investors. **One major advantage is its relatively cheaper access to energy compared to other European countries.** Spain's investment in renewable energy, particularly in solar and wind power, has helped lower energy costs, making it an appealing location for industries with high energy demands, such as manufacturing and technology. Additionally, the country's strategic location as a gateway between Europe, Latin America, and North Africa enhances its role as a hub for trade and investment.

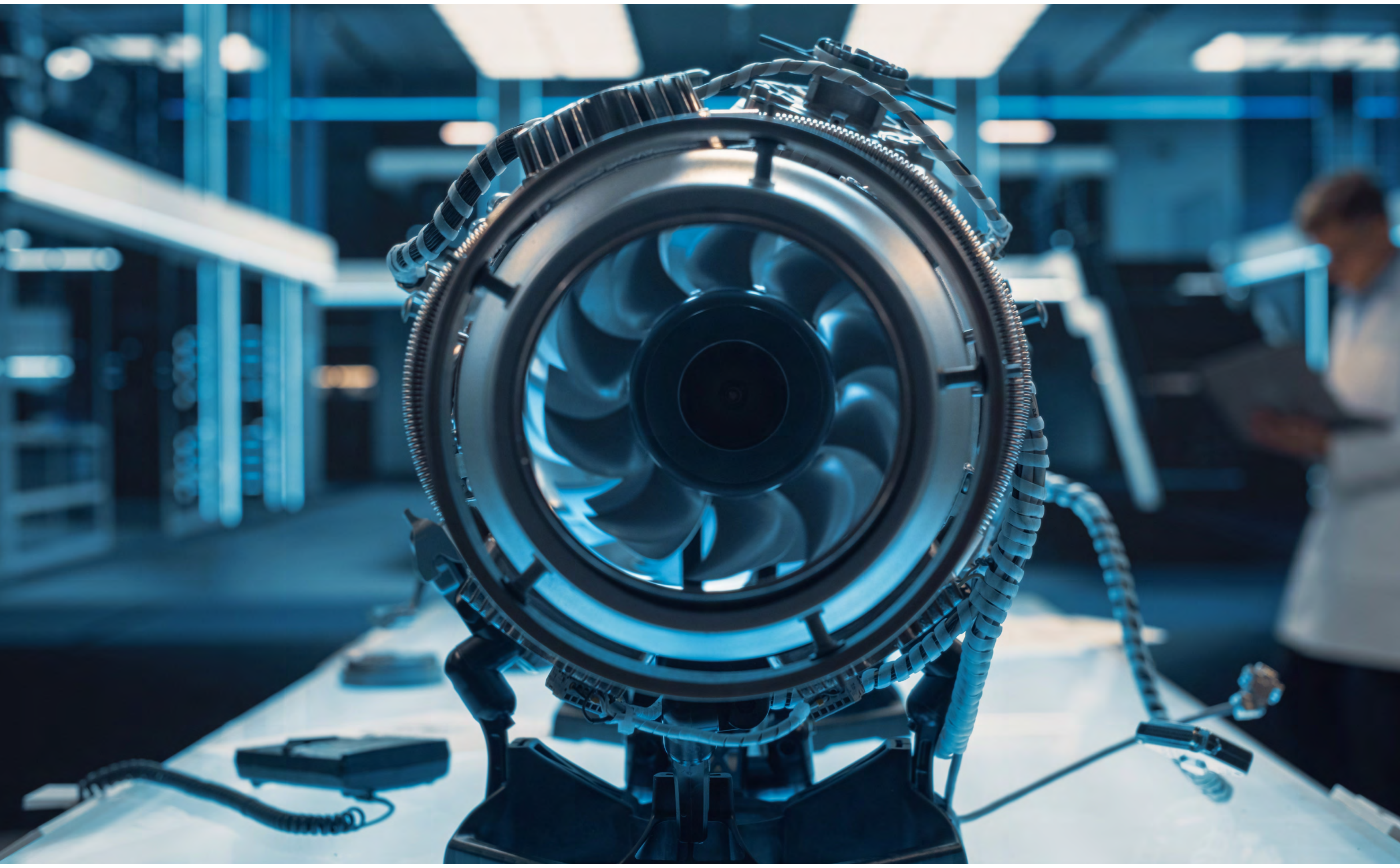
Graph 3.
Stock evolution of productive FDI (2007-2022). Unit: Millions of euros.

Source: Foreign Investment Register.

Another crucial factor is Spain's **highly skilled labor force**. The country provides a strong education system and leading technical universities that produce a well-trained workforce, particularly in engineering, digital technology, advanced manufacturing, and related fields. This makes Spain an attractive destination for industries that require specialized skills, such as automotive production, aerospace, and IT services. Additionally, labor costs in Spain remain competitive compared to other Western European economies, further enhancing its appeal for multinational companies seeking to establish or expand operations.

Finally, Spain's tourism sector has played a significant role in attracting FDI. As one of the most visited countries in the world, Spain has developed a highly competitive and productive tourism industry that has drawn foreign investment in hotels, real estate, entertainment, and infrastructure. This sector has also had spillover effects on other industries, such as transport, retail, and food services, boosting overall economic competitiveness and productivity. The combination of affordable energy, a skilled workforce, and a thriving tourism sector has established Spain as a key FDI destination, helping drive growth and innovation across multiple industries.

Should FDI into the EU increase, Spain would be one of the most benefited countries. Furthermore, Spain could greatly benefit from simpler and more flexible regulations, as well as from further public-private collaborations, a more unified capital market, and shared knowledge. As highlighted by participants in the IE Tower meeting, greater regulatory efficiency and strategic partnerships would naturally boost Spain's competitiveness, making it even more attractive to foreign investors. By improving in these areas, Spain could further solidify its position as a key FDI hub, driving economic growth and innovation.



POLICY RECOMMENDATIONS

07

07. POLICY RECOMMENDATIONS

FDI has the potential to bring numerous benefits to Spain and the EU.

The presence of multinational enterprises in a country can enhance efficiency through increased competition. It can also create positive productivity spillovers as multinationals incorporate domestic firms into their production processes through forward and backward linkages. Furthermore, multinational enterprises typically make new technology available and provide access to new markets, which improves the training and qualifications of the local workforce while raising wages and employment. The extent of these positive outcomes will partly depend on the host country's absorptive capacity.

FDI is a crucial driver of economic growth, innovation, and job creation in the EU. Based on the analysis and recommendations of the experts and leaders from different sectors in the meeting hosted by the Center for the Governance of Change at IE Tower in Madrid on January 30, 2025, the following recommendations offer strategies to make the EU an appealing and dynamic market for international investors.

MITIGATE THE IMPACT OF ECONOMIC CHALLENGES

Addressing the effects of slow growth, high inflation, and rising energy prices necessitates targeted EU policies that enhance stability, boost investor confidence, and foster a competitive business environment. The beneficiaries of these measures include:

- Foreign investors, who would gain from a more predictable and attractive market.
- Domestic businesses and startups, which would attract increased investment and improved operating conditions.
- Energy-intensive industries, which would gain from enhanced energy security and lower costs.
- Workers, who would experience job creation and wage stability due to economic growth.

Key structural reforms should concentrate on **minimizing regulatory burdens, streamlining labor market policies to encourage flexibility and workforce upskilling, advancing digital transformation, and deepening the integration of capital markets to facilitate investment.** In addition to investment incentives and energy security initiatives, these reforms would restore growth momentum and establish the EU as a leading destination for FDI.

One key priority is stimulating economic growth through structural reforms. The EU should prioritize pro-growth policies that enhance productivity, innovation, and labor market efficiency. For example, completing the Capital Markets Union, as indicated by Letta and Draghi in their reports, would ensure easier access to financing for businesses, thereby reducing reliance on bank lending, which is currently constrained by high interest rates.

Additionally, streamlining investment approval processes, reducing administrative burdens, and harmonizing regulations across member states would make it easier and faster for foreign companies to establish operations in Europe. Furthermore, enhancing labor mobility by recognizing professional qualifications (including certifications, diplomas, and licenses that enable individuals to work in regulated professions across various EU member states), investing in workforce upskilling, and incentivizing the migration of high-skilled workers would strengthen labor market competitiveness and increase investor confidence.

Stabilizing energy prices and securing supply chains is another essential step in improving the EU's investment climate. Expanding public-private partnerships in renewable energy projects such as solar, wind, and hydrogen would ensure a stable and affordable energy supply, thereby reducing dependence on volatile fossil fuel markets. Strengthening cross-border energy interconnections among EU member states would enhance energy security and lower costs, making manufacturing and industrial production more competitive. Additionally, offering long-term, fixed-price energy contracts to foreign investors in energy-intensive industries would provide cost predictability and create an incentive for companies to establish or expand operations within the EU.

SIMPLIFY AND IMPROVE THE REGULATORY ENVIRONMENT

To enhance the EU's appeal for FDI, policymakers should tackle regulatory inefficiencies, promote transparency in market access, and streamline administrative processes. While regulation is essential for market stability, fair competition, and consumer protection, **unnecessary complexity and protectionist tendencies create uncertainty and deter investors**. A more predictable, efficient, and investment-friendly regulatory framework is essential to restore investor confidence and improve the EU's global competitiveness.

One of the most critical reforms is the harmonization of investment regulations across member states. While the Single Market aims to ensure uniformity, national variations in investment approvals, licensing procedures, and competition laws continue to create fragmentation. The EU should work toward regulatory alignment among member states, particularly in industries requiring extensive compliance, such as telecommunications, energy, and technology, that can also enhance the simplification of the regulatory burden across countries. A centralized EU-wide investment approval mechanism would significantly reduce bureaucratic delays and provide greater clarity and efficiency for investors operating in multiple member states.

By simplifying regulations, ensuring fair market access, streamlining investment approvals, and increasing policy transparency, the EU can reverse declining FDI inflows and strengthen its position as a global leader in investment and economic growth.

ENHANCE PUBLIC-PRIVATE SYNERGIES TO MAXIMIZE FDI IMPACT

Although this point was mentioned by some of the participants in the IE Tower meeting, there was not a unanimous agreement on it. Participants supporting the promotion of this initiative suggested that the EU adopt a public-private partnership framework in which public investment complements, rather than competes with private capital. By utilizing targeted co-investment mechanisms, the EU could attract more private investment. This involves establishing funds where public money mitigates risks in key sectors such as renewable energy, advanced manufacturing, and AI. By providing initial capital for infrastructure projects, the public sector can encourage private firms to invest, innovate, and manage these projects without excessive government control. This approach builds confidence among investors while allowing businesses to take the lead in commercialization and development.

Additionally, clear and predictable rules for accessing government assistance are essential. The EU should ensure that public funding for strategic industries remains transparent and competitive, allowing in principle foreign investors to participate in state-funded projects. Reducing bureaucracy and streamlining regulations will also help attract investment, making it easier for foreign businesses to access incentives, tax breaks, and public contracts. Lastly, rather than directly subsidizing companies, public investment should focus on improving infrastructure, digital connectivity, and green transition projects. This creates a business-friendly environment that naturally draws investors without distorting market competition.

INTEGRATE THE EU'S CAPITAL MARKETS

This is crucial for fostering economic growth, improving financial stability, and enhancing Europe's global competitiveness. As indicated by Letta's and Draghi's reports, as well as by many participants in the IE Tower meeting, a more unified capital market would make it easier for FDI to flow into EU countries, allowing businesses to raise funds across borders, reducing their reliance on traditional bank financing, and encouraging more diverse investment sources such as venture capital and equity financing.

Integrating the EU's capital markets would lower transaction costs and reduce legal uncertainties, facilitating cross-border capital movement for investors. Currently, different national regulations create obstacles to investment, raising costs and limiting access to funding. Harmonizing these regulations would enhance investment flows, improve liquidity, and make the EU a more appealing destination for investors.

A unified capital market would also enhance financial stability, allowing capital to circulate more freely and reducing economic imbalances between countries. This would make the EU more resilient to economic shocks. Additionally, a stronger capital market would help the EU compete with financial powers like the US and China, attracting more FDI in key sectors such as technology, renewable energy, and infrastructure.

08. CONCLUSION

In conclusion, FDI plays a vital role in enhancing the competitiveness of Spain and the EU. Beyond its financial dimension, it acts as a catalyst for innovation, productivity gains, and job creation—factors that are essential for sustaining economic growth and improving living standards. Securing these benefits, however, requires careful policy attention, particularly in light of the current geopolitical context. A new global order seems to be emerging, one characterized by rapid technological disruption, rising trade and investment tensions, and intensified strategic competition among major powers.

Recent trends show fluctuations and declines in FDI flows into the EU, due to global economic uncertainties and Europe-specific challenges that diminish the EU's appeal to foreign investors. Chief among these is the regulatory environment, with issues such as lengthy investment screening processes and burdensome regulations. Additionally, the absence of fully integrated capital markets restricts long-term financing opportunities, while heavy government involvement in sectors such as energy and telecoms may stifle private investment and competition.

Addressing these concerns is crucial for the EU to remain an attractive and competitive destination for international investment. Key reforms suggested by this policy brief include minimizing unnecessary regulatory burdens, advancing digital transformation, promoting labor market flexibility and workforce upskilling, deepening capital market integration, and simplifying regulations.

In the current global context, Spain and the EU have an opportunity to improve their position as destinations if they offer a more stable and predictable regulatory environment and take advantage of their comparative advantages, notably a skilled and diverse workforce, supported by strong education and training systems, and the world's largest Single Market, with 450 million consumers.

FDI plays a vital role in enhancing the competitiveness of Spain and the EU.

ENDNOTES

1 *Global Foreign Investment Weak in 2023, Funding for Sustainable Goals Sectors Drops over 10%.* UN Trade and Development (UNCTAD). Retrieved from https://unctad.org/press-material/global-foreign-investment-weak-2023-funding-sustainable-goals-sectors-drops-over-10.

2 The conversation was held under the Chatham House Rule. The list of participants was as follows: Beatriz Alvargonzález (Economic Advisor, Representation of the European Commission in Spain), Víctor Ausín (Director General of Economic Policy, Ministry of Economy, Trade, and Enterprise of Spain), Irene Blázquez (Director, Center for the Governance of Change at IE University), Javier Capapé (Research Director, Sovereign Wealth Funds and Sovereign Impact initiatives, Center for the Governance of Change at IE University), Juan Corro (Chief Technology Officer, Madrid City Council), Sandra Figaredo (Director of Public Affairs and Institutional Relations, Spanish Startups Association), Patricia Gabaldón (Professor of Economic Environment, Business School, IE University), Elisa García (Executive Director, ICEX–Invest in Spain), Rafael Linde (Deputy Director General for Investment Regulation, State Secretariat for Trade at the Ministry of Economy, Trade, and Enterprise of Spain), Salvador Llaudes (Chief of Staff, Office for Economic Affairs and the G20, Office of the Prime Minister of Spain), David Martín (Partner, Monitor Deloitte), Miguel Otero (Research Director, Project on the Digital Revolution and the New Social Contract, Center for the Governance of Change at IE University), Fran Panciera (Head of Institutional Relations, European Parliament Office in Spain), Alex Roche (Associate Director, Center for the Governance of Change at IE University), Pilar Roch (Director General, Ametic), Alejandro Salesa (Deputy Director General for Bilateral Economic Relations and Economic Diplomacy, Ministry of Foreign Affairs, European Union, and Cooperation of Spain), Christoph Steck (Director of Public Policy, Amazon Spain and Portugal), César Tello (Director General, Adigital), Giaccomo Ugarelli (Associate Director, Center for the Governance of Change at IE University), Diego de Arístegui (Director of Investment, Invest in Madrid), Ignacio Ruiz-Gallardón (Head of Economic Policy and Regulation, Amazon Spain), Elena Yndurain (Professor of Technological Innovation, IE Business School).

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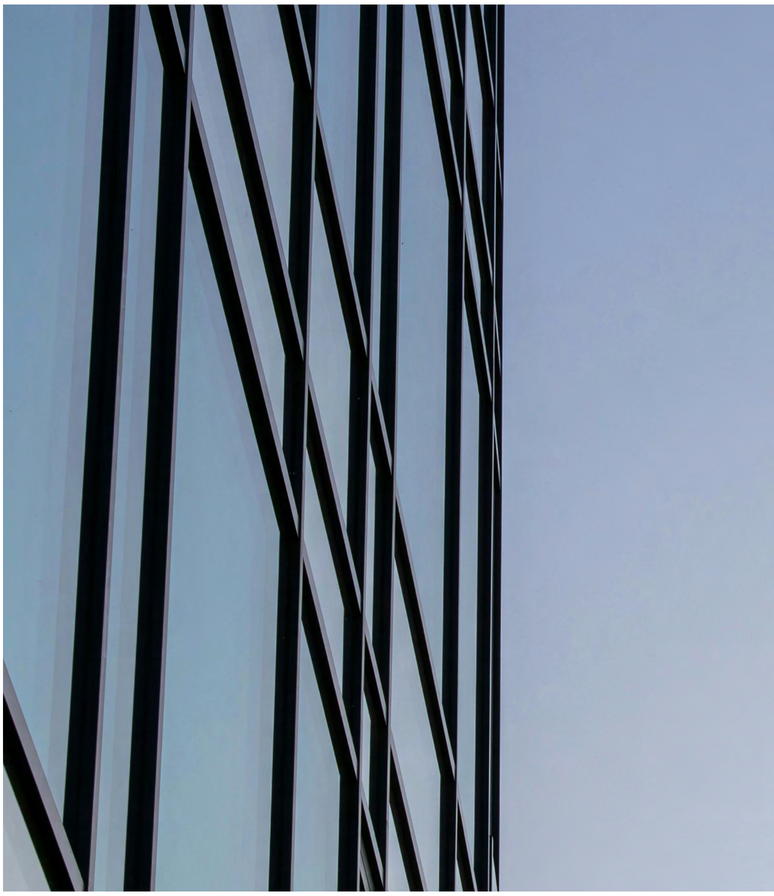

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AUTHOR:
Patricia Gabaldón (*Business School, IE University*)

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