

01. FOREWORD

WHAT WILL BECOME OF SPAIN?

If you were asked today what Spain is, you could answer that it represents a splendid combination of economic potential, culture and quality of life. Spain has recorded extraordinary expansion over the past four decades. Its economy has grown by 2.3 times, making it one of the European countries showing the greatest levels of expansion. In terms of growth, Spain led the large Eurozone nations in 2019 with a rise in GDP of 2%. We have 48 World Heritage Sites, making us the third-placed country worldwide in terms of outstanding locations - a cultural legacy that we renew every year by receiving almost 50,000 international university students, making Spain the most sought-after Erasmus destination. Our lifestyle and quality of life are unique, with an 8,000 km long coastline, 3,000 hours of sunshine per year and more than 500 blue flag beaches.

Spain's geography and natural diversity have always represented a source of wealth and are nowadays a driver of economic transformation: Spain places second worldwide with respect to international tourism, is second in Europe in installed wind power generating capacity and is the European leader in terms of area assigned to organic farming. Spain, however, is not bounded by its geography. As the heir to a seafaring past, it has seen the growth of businesses that dominate their sectors at a global level. Spanish construction and infrastructure businesses place second worldwide in turnover terms and are the most international. Our automobile sector is the second most important in Europe and we have global reference firms in important sectors such as the hotel and hospitality trade, renewable energies, telecommunications and the banking sector.

The same Spain has now suffered the terrible human and economic impact of COVID-19. This pandemic has plunged us into one of the most delicate situations in our recent history, exposing the growing need to understand how to respond to future risks in an ever more unpredictable world.

Conscious of the urgency and importance of our country being prepared for whatever the coming world throws at us, Círculo de Empresarios and Boston Consulting Group have joined forces to produce this report, aimed at providing a guide to the essential economic transformation of Spain. We must make the most of this crisis, not only to rebuild that which has been swept away, but also to emerge with a stronger, more competitive and sustainable economic model. We have the conviction that our country possesses the necessary talent and resources to continue leading growth over the coming years and hope to contribute to making this a reality. In conjunction with the BCG, and advised by a number of its members at the head of leading businesses in the main productive sectors, Círculo de Empresarios has brought together in this report the trends that will determine our future, proposing 14 priorities to make the coming chapter of our history a successful one.

If we were to be asked today what will become of Spain, we would answer that it will be whatever we build together.



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Chairman - Círculo de Empresarios



Rafael Rilo
Managing Director of BCG Spain and Portugal

02.

EXECUTIVE SUMMARY



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OPPORTUNITIES IN THE POST-COVID ERA

COVID-19 has provoked an unprecedented health and economic crisis. As with any global crisis, it will give rise to profound changes in beliefs and social customs. The world that comes after the COVID-19 crisis will be recognizable, though markedly different. We will see a society that is more aware of individual health, as well as institutions that are more willing to dedicate resources to strengthening healthcare and biomedical research systems. We will also witness significant distortion in the dynamics of international trade, severely impacted by the desire of businesses to strengthen the resilience of their supply chains. This is in addition to greater protectionist and nationalist tensions that had already begun to emerge in recent years. Consumers in the post-COVID era will be more digital and evolve in the direction of increasingly responsible consumption, whereas businesses will more naturally embrace teleworking. Finally, due to our raised consciousness regarding our vulnerability to natural forces, we will see a greater sensibility with respect to the challenge of sustainability.

The trends that will dominate in the post-COVID era represent a unique opportunity to reshape our emergence from the economic crisis into a **wholesale transformation of our economic model**. This crisis has once again revealed that the specific characteristics of our economic model make us particularly vulnerable to external shocks. In a pro-cyclical and seasonal

economy such as ours, the falls seen in times of recession are greater than the European average, while subsequent growth is also more vigorous. We are now presented with the opportunity to correct this anomaly, modernizing our economic model in order to achieve **sustainable growth, increased competitiveness and greater resilience**. We also have a duty to assign and use, in the most efficient manner possible, the funds that we will receive to this effect from the Next Generation EU financial program. In order to achieve this, **it is essential to focus our efforts on 14 priorities**: seven dedicated to sustainable growth and another seven aimed at ensuring the resilience of our economy.

SEVEN PRIORITIES TO ENSURE THE SUSTAINABLE GROWTH OF OUR ECONOMY

1. **Favor innovation, entrepreneurship and the growth in size of Spanish companies:** increasing public and private investment in R&D, fostering a culture of entrepreneurship and furthering the creation of start-up ecosystems are essential to growing innovation in our country. Spanish businesses also need to scale up, such that they become more competitive and capable of internationalization. Only in this way will we be able to create world leaders.
2. **Drive investment in technology and digitalization:** the technological transformation of production processes is essential. In order to improve efficiency, raise the productivity of our businesses and develop innovative solutions with greater added value.

3. **Leading the fight against climate change and the commitment to sustainability,** driving the development of renewable energies, energy efficiency and the circular economy. This commitment to sustainability will enable us not only to reduce our environmental footprint, but also generate significant business opportunities for our companies, incentivize job creation and improve Spain's energy independence.
4. **Strengthening the added value contributed by our industry** committing to the development of technology, taking advantage of opportunities derived from the change in international trade flows and intelligently tackling the growing commitment towards internalizing environmental costs.
5. **Develop new tourism models** to maintain our position of global leadership. Spain has the opportunity to become the benchmark for the recovery of the sector, ensuring the safety of travelers over the short term and, in the medium term, committing to higher quality tourism and a greater variety of offerings. The development of new domestic tourism models will not only enable us to strengthen the attractiveness of our offerings, but also help us to continue driving the export of Spanish know-how, technology and experience.
6. **Transform distribution and logistics activities** in order to capitalize on changes in shopping habits and the opportunities offered by new technologies. We must drive the digital transformation of small and medium-sized enterprises and develop leading logistics capabilities that enable us adapt to the growth of e-commerce.
7. **Lead the transition towards new forms of mobility.** The imperatives of sustainability and the technological revolution have opened new horizons in terms of urban and interurban mobility. Spain can take advantage of its position to lead this transformation in three areas: the automotive industry, infrastructure and the development of new, sustainable fuels.

SEVEN PRIORITIES TO ENSURE THE RESILIENCE OF OUR ECONOMIC MODEL

8. **Improve our ability to anticipate and prepare our economy to respond rapidly** to unforeseen events, investing in planning and the formulation of contingency plans, developing the capacity to monitor for signs of weakness and improving collaboration between the Public Administration and the private sector.
9. **Increase the resilience of our healthcare sector and strengthen our health and healthcare capacity** against future crises. In order to achieve this, it is necessary to redesign healthcare infrastructure and review its operating model, transforming it into one that takes advantage of technology to provide personalized, digital care to patients. Greater international coordination and public-private partnership is essential to anticipating crises and producing adequate responses.
10. **Strengthen our education system** to guarantee continuity in the event of the interruption of physical classes due to exceptional situations and adapt the system to future needs. With the aim of eliminating the gap between professional capabilities and the needs of the labor market, the new education model must foster the development of science and technology profiles and ongoing training, these being necessary throughout workers' careers.
11. **Maintain a level of public debt that is both sound and stable.** Spain must implement fiscal consolidation policies, accompanied by structural reforms aimed at improving the competitiveness of our country. Within this context, Spain should avoid the expedient of greater tax pressure on businesses to raise revenue, instead focusing efforts on reducing unproductive operating expenditure over the medium term and using debt to fund investment. Within the corporate sphere, Spanish businesses must also endeavor to

reduce their levels of indebtedness and strengthen their financial position.

12. **Improve the transversal resilience of supply chains**, particularly in the most critical sectors, so as to ensure the availability of essential goods in the face of unexpected risks. COVID-19 has exposed the fragility of some of our supply chains, leading to the scarcity of basic products such as personal protective equipment.
13. **Create a business environment that favors economic activity and attracts foreign capital.** This is essential to the existence of public and private sector investment to energize the economy. The public sector must ensure a straightforward, harmonized and stable regulatory structure to provide legal certainty to those wishing to invest. This legal framework must improve the current degree of employment flexibility, key to protecting the labor market against changes to economic circumstances.
14. **Promote and consolidate public-private partnership models.** The public sector must seek support from the private sector in tackling some of the greatest challenges that we face: the economic recovery and anticipation of future crises, the funding of necessary public infrastructure and the digitalization of Public Administration. Nevertheless, public-private sector collaboration must not be limited to an isolated group of sectors or occasions. It is essential to develop a culture of ongoing partnership that fosters the creation of common goals and mutual trust.

Implementing these 14 essential tasks requires changes to how both the private sector and public sector function.

RECOMMENDATIONS FOR PRIVATE SECTOR ACTION: PRODUCTIVITY AS AN IMPERATIVE

In order to ensure sustainable growth for Spain, the private sector must improve its productivity. This means migrating towards innovative products and services that are more competitive in the international market and raising the added value of our business fabric. In order to achieve this, the private sector must make determined strides towards digitalization and invest in innovation and other intangible goods. It is likewise essential to promote the upscaling of Spanish businesses, the reduced size of which is limiting their capacity to invest in innovation, ability to access credit and their competitiveness.

Any migration towards higher productivity activities must go hand-in-hand with a renewed commitment to environmental sustainability and social challenges, these being inescapable requirements of new generations of consumers.

In order to achieve the goal of greater resilience, Spanish businesses **must strengthen their financial, operational and cultural capabilities:**

- Financial resilience to maintain sustainable levels of indebtedness that enable businesses to face up to increased volatility
- Operational resilience implies strengthening supply chains in order to avoid stoppages in times of disruption, as well as improving logistical capabilities by developing flexible, responsive distribution centers
- There are two main facets to cultural resilience. Whereas on the one hand it is necessary to incorporate within business culture the need to design contingency plans, cultural resilience also entails investment in the development of highly qualified human capital capable of responding to events involving an elevated degree of uncertainty and change.

RECOMMENDATIONS FOR PUBLIC SECTOR ACTION: THE STATE AS AN ENabler OF CHANGE

The state has a fundamental role in **setting up the appropriate conditions** to enable the **transformation of the economic model**. In order for there to be innovation, the state must establish a regulatory framework that is favorable to entrepreneurship and support private sector investment in R&D and digital transformation.

It must likewise create the conditions for the establishment in Spain of alternative investment models capable of assuming greater risk and supporting more innovative projects.

In addition, the state must play an active role in reactivating demand in key sectors (automotive, housing, infrastructure) in order to speed up the economic recovery.

As per the private sector, it is essential for the public sector to become resilient in financial, operational and cultural terms.

- Financial resilience involves facing up to necessary structural reforms that will **reduce the level of public debt** and ensure a sound fiscal position.
- Operational resilience entails **the capacity to react to possible external shocks**. Within this context, it is essential for Spain to strengthen its healthcare system and supply chains in order to guarantee responsiveness in times of disruption.
- Cultural resilience entails **political leadership involving people with proven professional capabilities and experience**, able to respond to situations and generate trust in institutions. It is similarly necessary to have an informed society, capable of adapting to change in social and employment terms. In order to achieve this, it is essential to invest in a high-quality education system.

