

STRATEGIC PLAN TO INTERNATIONALISE AND ATTRACT FOREIGN INVESTMENT IN CASTILLA-LA MANCHA 2021-2025

Executive Summary



Castilla-La Mancha



IPEX

Instituto de Promoción Exterior

Presentation

The Government of Castilla-La Mancha is launching the new Strategic Plan to Internationalise and Attract Foreign Investment in Castilla-La Mancha 2021-2025 as a roadmap to continue promoting the internationalisation of the region's economy, both in terms of promoting companies from Castilla-La Mancha abroad and attracting foreign investment to our territory.

The Strategic Plan to Internationalise Castilla-La Mancha 2016-2020 has been the reference framework for directing our region's international activity over the last five years. It has allowed us to reach the highest levels of internationalisation in our region since historical records began through the constant effort of exporting companies.

A new period, not without its challenges and complexities, is now opening before us. The global crisis caused by the pandemic and its uneven recovery in international markets, coupled with other developments such as the rise of protectionism or trade wars, pose a highly complex scenario; however, this is not without opportunities. Castilla-La Mancha companies have amply demonstrated their capacity for growth, their will for continuous improvement and their determination to expand their presence in markets around the world. This ambition has the firm backing of the Regional Government and all the organisations that work to promote the companies and products of Castilla-La Mancha throughout the world.

We are presenting a global strategy for the region as a whole, but in a singular way very much aimed at our exporting fabric, which has played an important role in defining it. The exporting companies have actively participated in the drafting work through setting up five sectoral roundtables and conducting individual interviews.

A highly participative document that has also involved the Castilla-La Mancha Confederation of Employers-CECAM, the Council of Official Chambers of Commerce, Industry and Services of Castilla-La Mancha, Agrifood Cooperatives of Castilla-La Mancha and the Territorial Delegation of ICEX in our region, who have also collaborated in preparing it.

All this joint effort is well reflected in this new strategy that will mark our region's promotional activities for the next five years and that sets the objectives that we set ourselves as a region in terms of international promotion and attracting foreign investment. Castilla-La Mancha is currently the industrial epicentre of Spain and from this privileged position we look to the future with ambition, but also with the coherence, seriousness and common sense that is already a hallmark of our land.

Patricia Franco Jiménez

Regional Minister of the Economy, Business and Employment

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Executive Summary

The objective of the consultancy work carried out is to provide key support elements for preparing and implementing the **Strategic Plan to Attract Investment in Castilla-La Mancha 2021-2025**, which should govern IPEX's activity in this field. The work carried out provides elements of analysis and diagnosis of Foreign Direct Investment in Castilla-La Mancha, addresses the main challenges faced by IPEX in terms of attracting investment in the current context, and proposes the action lines to be developed in the Action Plans until 2025 in order to achieve the desired objectives with respect to the foreign investment sought and the attractiveness of the region to achieve it.

1. Diagnosis of the FDI market and its promotion

Foreign Direct Investment (FDI) takes place in a framework determined by global economic conditions, business strategies and government policies regarding the investment climate. The **Diagnostic phase** takes into account both the reflection on **IPEX's** strategy and the results obtained in recent years in relation to the Investment attraction function, as well as the current context of international investment and the main trends in terms of policies to promote and attract investment.

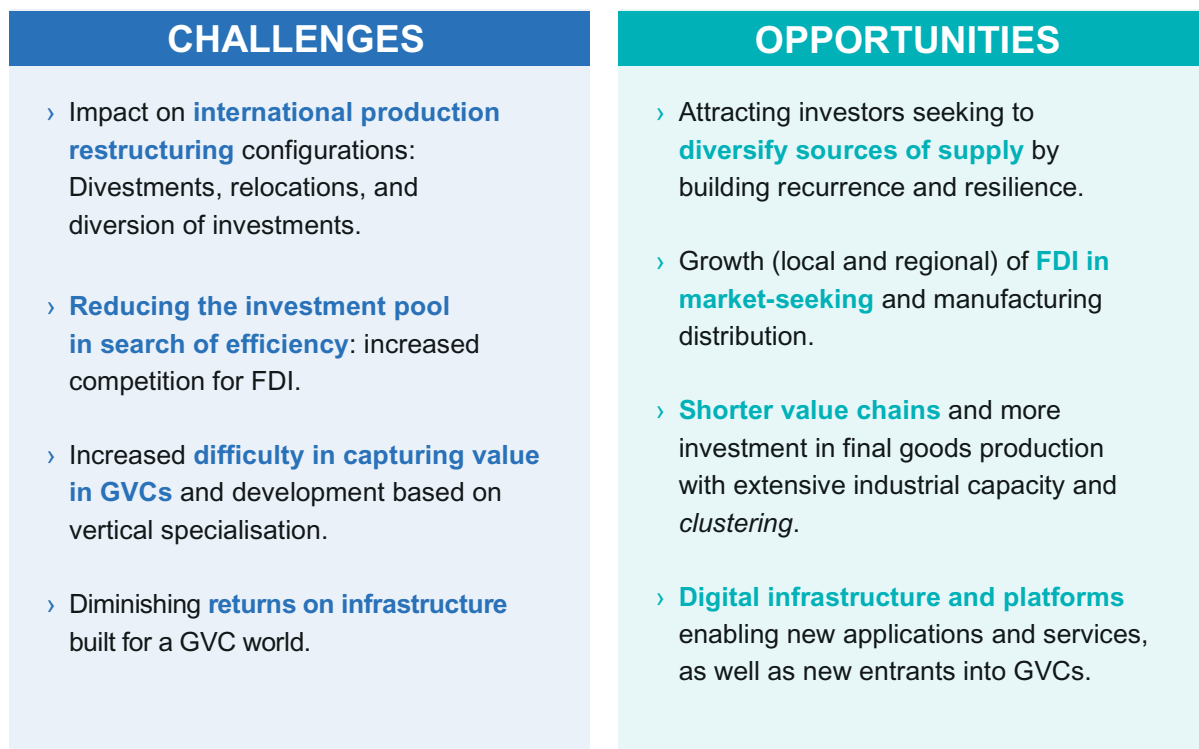
The following contextual elements and significant trends can be highlighted from this phase:

On the international investment situation

- › FDI, under the umbrella of economic globalisation, has grown at high rates in recent decades to play a prominent role in the world economy. The **emergence of new geographies** as sources and recipients of investment, the emergence and rise of **new types of investors**, the **configuration of global value chains**, the processes of **corporate reconfiguration of multinationals**, the **weight that mergers and acquisitions** and tax schemes have had in them, the growing **role of cities** as active agents and the impact of technological change and the **digital economy** are some of the trends that explain the evolution and changes that FDI has experienced in the last three decades.
- › **UNCTAD's** latest global foreign investment outlook shows that 2020 saw a **42% decline** from the previous year to **\$859 billion**, a decline of 69% in developed countries and two-thirds in the European Union.
- › Expected trends for 2021 remain weak, with a **further 5-10% reduction**, despite the expected uneven recovery in terms of growth, fixed capital formation and international trade.
- › The long gestation periods for international investment projects, the uncertainty related to the development of the pandemic and the global investment policy environment will continue to affect investment dynamics, which **are unlikely to recover before 2022**.
- › This weakness will mainly affect **new investment projects (also known as greenfield projects)**. Cross-border mergers and acquisitions (M&A) projects will follow a higher growth dynamic, mainly those related to the technology and healthcare sectors.

- › UNCTAD estimates that European companies **will attract more than 60% of technology deals** in terms of value. Similarly, buyers will be overwhelmingly (80%) companies from developed countries, with European companies increasingly active in this market.
- › In a context where FDI to the EU27 has shown a 71% decline, **Spain has registered 52% FDI growth** according to UNCTAD data, due to several acquisitions, notably the \$2.8 billion acquisition of MásMóvil by a group of private equity funds and the acquisition of BME by the Swiss stock exchange SIX Group.
- › Beyond these forward-looking data, the importance of foreign direct investment as a **driver of local investment is clear**. Research shows how \$1 of increased FDI generates at least \$1 of growth in domestic investment, with knock-on effects also generated in local job creation through sectoral spillovers.
- › These knock-on effects **vary across countries and sectors**, and in any case, the contribution of foreign investment to the local economy is strongly influenced by government policies and programmes that are implemented to maximise the knock-on benefits of FDI.
- › Trends in international investment determined by the **COVID-19 crisis point to impacts** on the international configuration of production in terms of relocations, investment diversion and divestments.

Figure 1. Main Challenges and Opportunities arising from the COVID-19 crisis



Source: Prepared inhouse

With regard to the situation of Foreign Investment in Castilla-La Mancha

- › Castilla-La Mancha has received an **average of 141 million euros** of foreign investment per year since 2010. **In 2019**, gross productive investment flows received by Castilla-La Mancha amounted to **97 million euros**. **The first half of 2020 recorded 41 million euros of investment in the region**, in a context of a 42% reduction in global investment flows; however, this did not affect Spain as a whole, which increased by 52% due to several major business acquisitions.
- › It should be noted, however, that there is a **strong 'capitality' component in Spain**, which affects the figures both from a purely methodological point of view, referred to as the 'headquarters effect', and from the point of view of real investment attractiveness. In this respect, Castilla-La Mancha is clearly **under-represented in the figures** provided by the various official sources.
- › Even so, the **importance of foreign investment in the region is significant**. Employment levels linked to foreign investment in Castilla-La Mancha, which have recovered notably in recent years, reach **51,975 jobs in the region in 2019**, 6.3% of the employed population. And over the last three years, the region has received **€86 of gross foreign investment per inhabitant** each year.
- › FDI stock, a sign of the more lasting confidence of investors in the local economy, amounted to **1.224 billion euros in Castilla-La Mancha in 2019**. In turn, tangible fixed assets FDI stock, a sign of the more lasting confidence of investors in the local economy, amounted to **1.224 billion euros in Castilla-La Mancha in 2019**. In turn tangible fixed assets linked to foreign investment in the region,



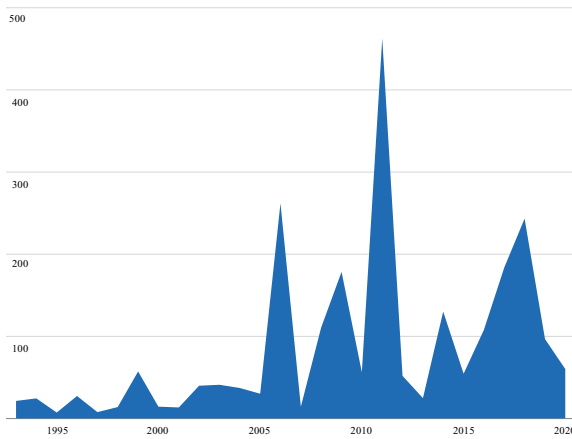
which provides a better perspective than stock in terms of where investments are effectively made as it is free of the headquarters effect, reached **6.374 billion euros** in 2019 (14.9% of regional GDP), 22.5% more than the previous year, with it being the Autonomous Region that has grown the most in this period.

- › In terms of the source of these investments, **Castilla-La Mancha receives flows mainly from other OECD countries** (97% in the whole historical record, since 1993). **France, the USA and the Netherlands** have accounted for 74% of foreign investment flows in the region since 1993. Investments from Asia and Oceania, Latin America and Africa remain marginal according to official data from the Investment Register.
- › In a very different feature from the main destinations of FDI in Western European countries, **Industry has been the sector that has monopolised the bulk of productive FDI received** by Castilla-La Mancha, thanks to the strong investments received in the *Manufacture of cement, Manufacture of electrical material and equipment, and Supply of electricity*. The Services sector has received 28% of the flows since 1993, in figures that are probably very much influenced by the 'headquarters effect' and the proximity of Madrid as a nucleus concentrating the headquarters of service-providing companies.
- › At the end of 2018, **125 subsidiaries of foreign companies** were operating in Castilla-La Mancha in the industrial, commercial and non-financial services sectors, according to INE data. Although these companies barely represent **0.15% of the total number of companies** in the region in these sectors, their impact on the regional economy is significant in terms of the main macroeconomic variables: they contribute **13% of turnover, 6% of employment, 7% of personnel costs and 32% of exports to the regional economy**. Private sources such as Informa put the figure at 129 foreign-owned companies, and IPEX maintains a register of almost 350 companies (including retail, branches and other establishments).
- › In this context, it is worth highlighting that Castilla-La Mancha is the ninth Spanish region that has received the most **greenfield investment projects** in Spain since 2003, according to data from FDI Markets. Thus, in the last five years, the region has received **more than 10 projects each year**, with an average investment of \$47 million per project and 192 jobs generated per project. In particular, 2019 closed with record highs in terms of number of projects (20) and announced investment (\$960 million).
- › IPEX's work in attracting investment, through the Castilla-La Mancha investment attraction team, has been significant, **managing 579 investment projects** since 2007, which is an average of 44 projects per year. The **majority** (61.4%) of the projects managed in the last four years are **greenfield** operations, while 28.8% are M&A operations and only 6.8% are reinvestments. The number of **projects won** amounted to 52, a significant percentage (9%) of the total portfolio under management, in line with the standards of the investment promotion agencies in the region.
- › **Investor satisfaction is excellent**, both in terms of proximity, ease of access and the instruments that the government makes available to investors.

Figure 2. Main figures for foreign investment in Castilla-La Mancha

FDI FLOWS

2.369 billion euros invested in Castilla-La Mancha since 1993



FOREIGN AFFILIATES

125 subsidiaries of foreign companies in Castilla-La Mancha

€5,390 M
TURNOVER



€3,922 M
VALUE OF PRODUCTION



€542 M
EMPLOYEE COSTS



€1,999 M
EXPORTS



€3,925 M
PURCHASES AND JOBS
carried out by other companies

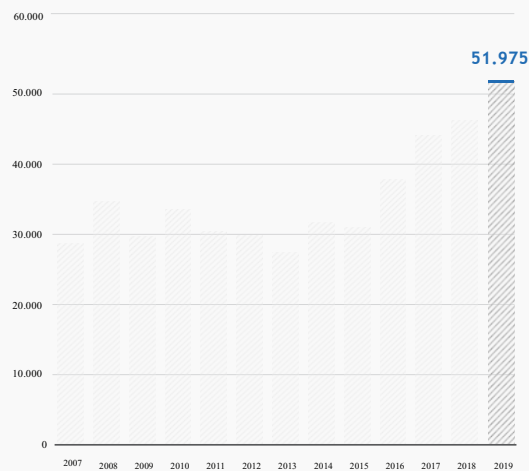


€104 M
GROSS INVESTMENT
in tangible assets



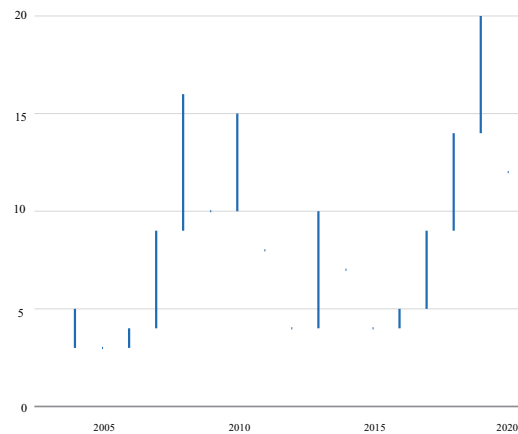
CHANGE IN EMPLOYMENT STOCK IN CLM

Employment stock in CLM has increased by 80% since 2007



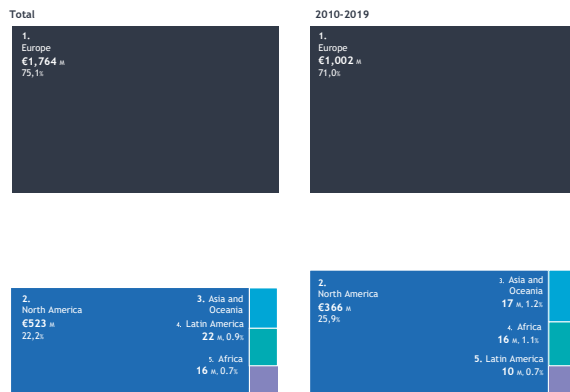
GREENFIELD PROJECTS

158 greenfield projects received since 2003



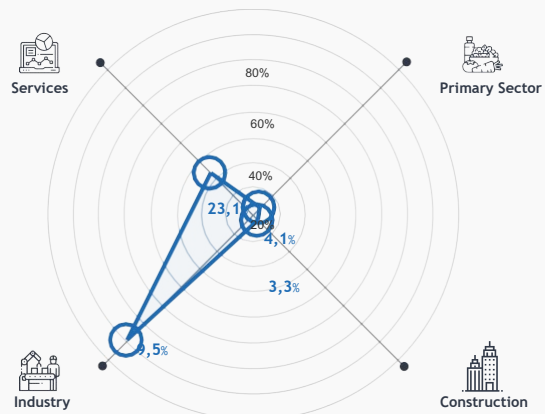
SOURCE OF INVESTMENT

Castilla-La Mancha receives flows mainly from other OECD countries, mainly from other European countries.



SECTORAL ANALYSIS

Industry accounts for the bulk of investment in Castilla-La Mancha



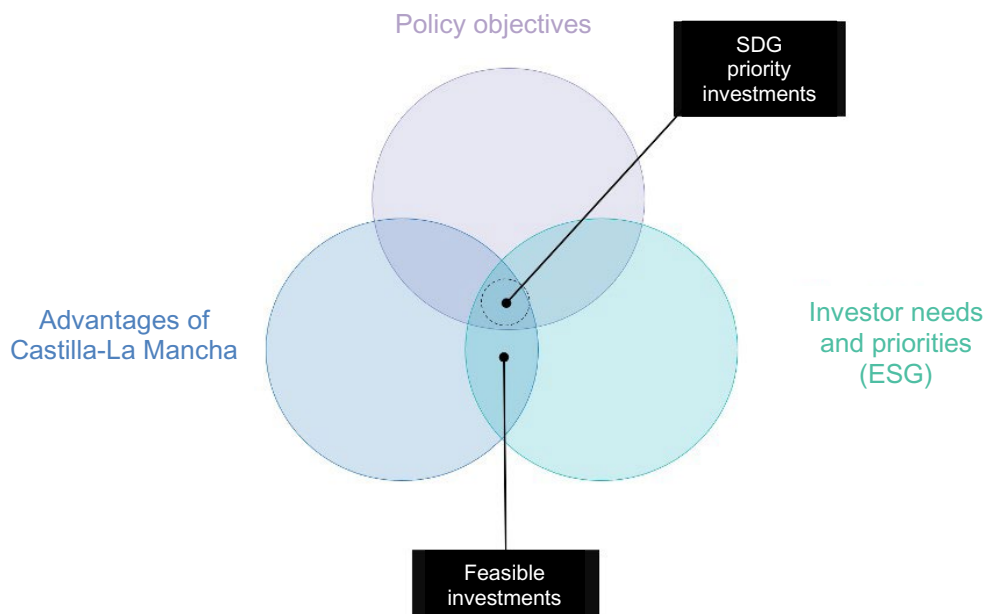
Source: Prepared inhouse, with data from the Investment Register, INE-FILINT and FDI Markets

2 Analysis phase

The **Analysis Phase** contains the initial approach to the three core elements on which the implementation of an investment attraction policy hinges:

1. Knowledge of the **competitive advantages** of Castilla-La Mancha.
- 2 **Investors' needs**, which vary over time, and are different according to their activity and origin.
3. The government's clear and defined objectives in the **policy to attract investment**, which should prioritise the region's potential as an investment destination.

Figure 3. Relationship between a territory's assets, investor needs and policy objectives



Source: Prepared inhouse, based on CEPAL (2016)

In the work carried out, this phase of analysis focused on three elements:

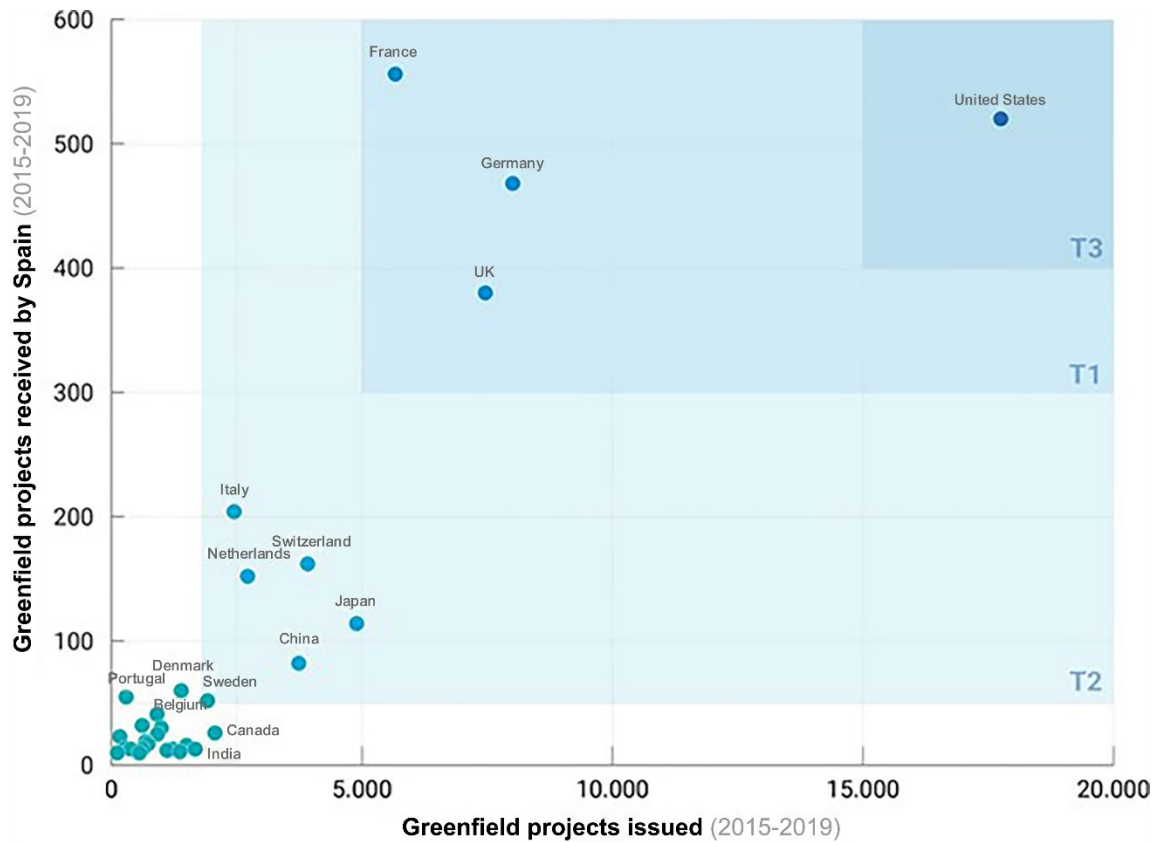
- A. The **SWOT** analysis carried out for Castilla-La Mancha as an investment destination territory allows for the **formulation of strategies to take advantage of the opportunities** to attract investment, such as **improving the traceability of the supply and logistics chain**, based on taking advantage of **the territory's strengths** - the presence of a first-class **logistics infrastructure** - and the introduction of **improvements** to overcome the **territorial weaknesses** - insufficient level of **digitalisation** of the economy - in order to face threats -such as the existence of alternative territories with better conditions and resources-.

B. Geographical analysis, based on an approach to those countries that have represented a preferential destination for Castilla-La Mancha to date and which, a priori, should be key countries for future **IPEX** activity. Similarly, additional factors have been taken into account in the analysis, such as reputation and the dynamism and expected development of flows, the share or weight of each source market in Spain in general and in Castilla-La Mancha in particular, strategic factors linked to a search for balance or geographical diversification, the degree of maturity and specialisation of the source markets in the sectors identified as priorities, the feasibility of the investments and the degree of prior knowledge of Castilla-La Mancha in the source markets, etc.

Those countries with a higher volume of source projects at a global level and/or for which Spain (and Castilla-La Mancha) have represented a preferential destination in recent years, should be clear priority targets for IPEX. These include:

- T0** The **Iberian Peninsula**, both from the perspective of promoting reinvestment and expansion of established companies, as well as strengthening Spain-Portugal relations and cross-investment.
- T1** The main European countries, in particular **France, Germany** and **the United Kingdom**, with a greater focus on second-tier cities and regions with a greater presence of companies in the sectors most closely linked to Castilla-La Mancha, such as those mentioned below. Although **Italy** could be included in this group due to its relevance as an investor in Spain, its investment weight in Castilla-La Mancha in the past has been significantly lower than that of the previous groups.
- T2** The **Benelux** countries, very dynamic economies with a strong investment tradition in the Iberian Peninsula and in the region, and a point of entry for a significant volume of investments by American multinationals, for which they play a key role as an intermediate country in Europe.
- T3** **The United States** (and, by extension, Canada), the world's leading investor and one of the main investors in Castilla-La Mancha in the past, both in terms of flows and of *greenfield* projects and employment, although it should be understood that the level of resources needed to approach this country with guarantees, from the perspective of attracting investment, requires an effort that is only within the reach of the best-equipped investment promotion agencies.

Figure 4. Ratio between the main sources of FDI projects worldwide and Spain's capacity to capture them, 2015-2019



Source: Prepared by Sifdi, based on data from FDI Markets, November 2020.

- C. Prioritisation based on **sectors and business activities** combines intrinsic factors of the territory, strategic objectives and contextual factors. The identification of sectors that can bring the greatest benefits to the host territory and that are in turn attractive to foreign investors raises two different prioritisation strategies, without forgetting the alignment with European priorities for regional specialisation. Firstly, the strategy that seeks **to promote existing links between foreign companies and local companies** when the business base in Castilla-La Mancha is already extensive. Secondly, considering the investment of **foreign companies as a driving force and inducer of the dynamisation of local companies**, when the existing base is smaller. In both cases, appropriate promotion, attraction and facilitation policy actions are required.

According to the above criteria, the **Aeronautics, Renewable Energies, Agri-food, Bio-economy and Metal-mechanics** industries would represent the most **balanced approach** between **local potential** and **driving capacity**, although the first two have so far seen the lowest volume of investment projects. The **Logistics** sector, with the lowest volume of projects received and the greatest presence in the region, and the **ICT Services and Fashion** (clothing, footwear) sectors, with the reverse logic, are the other three sectors to be taken into account for prioritisation in recruitment work. Of all of them, the document analyses the context, trends, competitors, opportunities and critical factors for investment, elements necessary to define, together with the political action strategy decided upon, the priorities and actions to be implemented.

3. Strategic objectives and action lines

The **Proposals Phase** incorporates two areas of work. Firstly, the definition of the **Strategic Lines of Action**, secondly, the proposal of the contents of the **Action Plan** to be developed to implement the objectives set out in the Plan.

Strategic objectives

The **objectives** that define **IPEX's** role in attracting FDI to Castilla-La Mancha are:

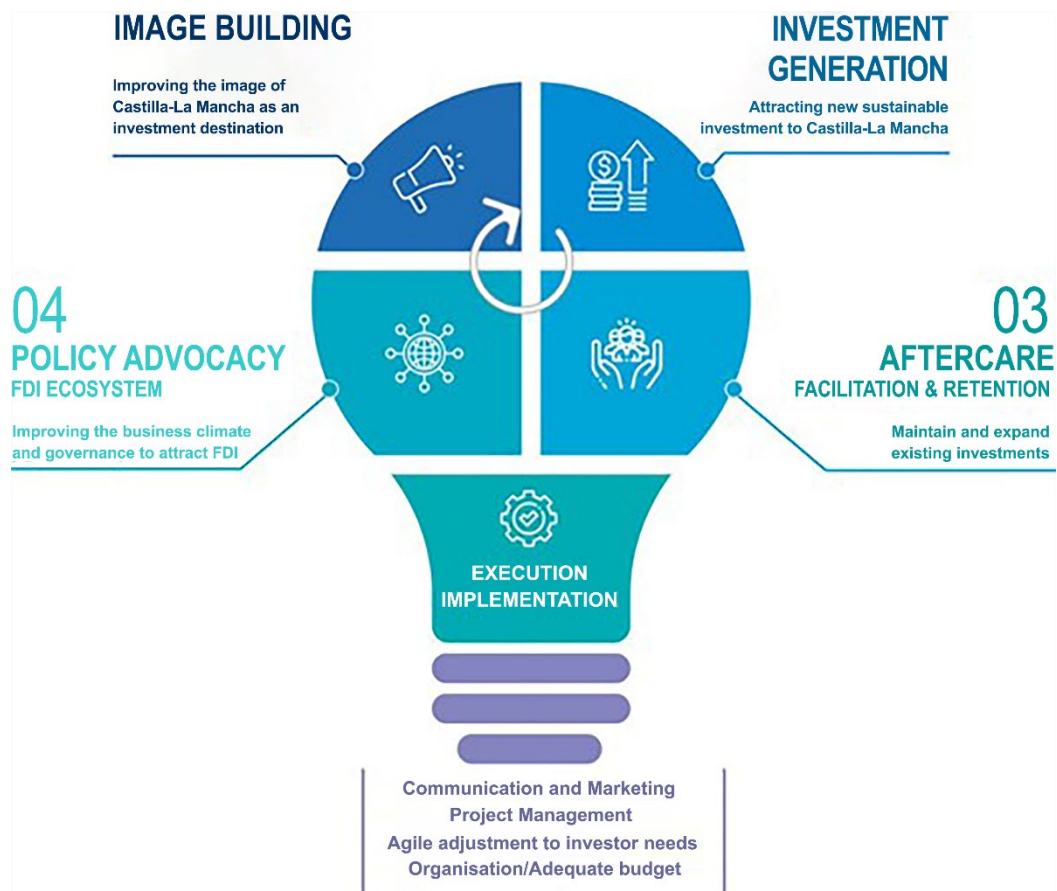
A. To position Castilla-La Mancha as an attractive and differentiated investment destination.

B. To attract and facilitate the implementation of new sustainable investments in Castilla-La Mancha, using all available means and channels to promote the territory.

C. To maintain and expand existing investments, establishing ongoing communication with established investors and an offer of services that are tailored to their needs and create value for the companies.

D. To enrich the investment climate in Castilla-La Mancha, by improving all the indicators valued by investors and facilitating effective governance that generates an FDI ecosystem.

Figure 6. Strategic Lines of Action. Roadmap



Source: Prepared inhouse by Sifdi

The pandemic **has so far not changed the foundations on which** the activity of Investment Promotion Agencies such as IPEX is based, but most of them have initiated processes of re-strategic analysis, which have mutated from a focus during the first wave on supporting immediate sourcing and needs resolution, to recovery and, lately, to reform and change. In the new scenario, the basic fundamentals and functions identified as common governance and operational practices are necessary conditions for the success of the IPEX Investor Office function. They can be summarised as follows:

- A. Ability to differentiate** the advantages of Castilla-La Mancha based on accurate and detailed data and information.
- B. Strong and efficient institutionality and governance**, with the definition of an investment attraction policy consistent with the other policies applied in the region and the generation of a public-private trust network involved in the policy objectives.
- C. A portfolio of services** with a personalised consultancy character, **adaptable** to the investor's needs and balanced according to each stage of the investment process.
- D. Accountability**, with measurement mechanisms useful both for stakeholders and for improving the efficiency of the institution and the business climate in Castilla-La Mancha.

Lines of action

In order to achieve the above objectives throughout the life of the **Strategic Plan 2021-2025**, the following 8 Action Lines have been defined, with their respective programmes, which must be developed in the specific Action Plans to be implemented.

OBJECTIVE 1 TO POSITION CASTILLA-LA MANCHA AS AN ATTRACTIVE AND DIFFERENTIATED FOREIGN INVESTMENT DESTINATION		OBJECTIVE 2 TO ATTRACT AND FACILITATE THE IMPLEMENTATION OF NEW SUSTAINABLE INVESTMENTS IN CASTILLA-LA MANCHA	
Line 1: Building an image of Castilla-La Mancha that is recognisable to international investors	Line 2: Promoting and disseminating the attractiveness of Castilla-La Mancha as a destination for FDI.	Line 3: Active business generation – <i>investor targeting</i>	Line 4: Advice, information and facilitation of investments
ACTIONS			
P1. Updating the value proposition and competitive advantages of Castilla-La Mancha	P3. Disseminating investment opportunities in Castilla-La Mancha	P6. FDI Prospecting and Market Intelligence	P8. Development of tailor-made proposals for investment projects and advice on implementation
P2. Development of specific value propositions for each strategic sector	P4. Participation in and organisation of national and international events, in order to make Castilla-La Mancha and its opportunities known	P7. <i>Investor Targeting</i>	P9. Logistical support during investor visits to potential sites
	P5. Strengthening the IPEX brand as a key regional player in attracting investment		P10. Advanced facilitation services
	P1. Updating the value proposition and competitive advantages of Castilla-La Mancha		P11. Processes and tools for project management

OBJECTIVE 3 TO ENRICH THE INVESTMENT CLIMATE IN CASTILLA-LA MANCHA		OBJECTIVE 4 TO MAINTAIN AND EXPAND EXISTING INVESTMENTS	
Line 5: Improving factors affecting the business climate	Line 6: Speeding up the administrative procedures that are the responsibility of the regional government	Line 7: Promoting and consolidating relations with foreign capital companies already present in Castilla-La Mancha.	Line 8: Promoting economic relations between foreign investors and the local fabric
ACTIONS			
P12. Improving the Business Climate in Castilla-La Mancha	P14. Streamlining administrative procedures	P16. Aftercare programme	P18. Linkage promotion programme
P13. <i>Policy Advocacy</i>	P15. Broadening the institutional governance framework	P17. Priority support for reinvestment projects	

To try to ensure quality in the above investment advice, information and facilitation programmes, their definition has been accompanied by a set of impact and performance indicators to help develop them in line with international standards and maximise their local impact.



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