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# A Vice-Presidency for Investment

*ESADEgeo Position Paper 10*

*January 2010*

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ESADE Club España 2020<sup>1</sup>

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<sup>1</sup> This note is based on the second meeting of Club España 2020, held at the end of October 2010 at ESADE Madrid. The purpose of this informal club is to bring together Spanish senior directors of both Spanish companies and foreign multinationals to (re)think the model of the international integration of the Spanish economy. The reflections made here are personal to the author.

## ***A Vice-Presidency for Investment***

Recently we have witnessed how Spain has been losing ground as an attractive option for foreign direct investment. In 2009, the entry of gross foreign direct investment (FDI) barely reached €15,000 million: more than 60% down on the year before. To a large extent, this drop was due to the global crisis that has affected the OECD countries since 2008. It was also due to the fact that the reference years, 2007 and 2008, were record years for FDI in Spain. Nonetheless, the decrease is greater than in other European Union countries (-40% on average).

Attracting FDI, and beyond that, attracting corporate decision centres, is a market in which all countries are now involved. In Europe, for example, London has become, through its agency Think London, a hub for corporate headquarters from all over the world, for European, Asian and American multinationals alike. A host of Japanese firms such as Canon, Docomo, Ricoh and Nomura have their European corporate headquarters in London. Some global companies such as the Anglo-Australian Rio Tinto and BHP Billiton, the Anglo-Dutch Unilever and Royal Dutch Shell, the South African Anglo American and SABMiller, and the Indian ArcelorMittal and Vedanta, even have their global command centres based partially or totally in the UK capital.

In the financial area, obviously most banks have their European or international headquarters in the City; just two examples are Goldman Sachs International and JP Morgan International. Lately the City has succeeded in attracting banks and investors from emerging countries, particularly China, India, and even Brazil. Only recently, China International Capital Corporation Limited (CICC) chose London for its European headquarters. The Singapore sovereign wealth fund GIC has its offices for Europe, Africa and the Middle East in the British capital. The Kuwait Investment Authority (KIA) has its head office abroad in London, as does the Emirates investment fund, ADIA. China's CIC, which

handles over \$200,000 million, is likewise considering London for its European headquarters.

This race to attract world, European or regional headquarters of multinationals is also being contested by many European capitals, including Paris (international headquarters of Microsoft), Luxembourg (world headquarters of Skype, for example), and several Swiss cities (world headquarters of the mining industry giant Glencore, for example). Competition is anything but slack.

Spain too has some leading agencies and instruments. However, a more ambitious strategy could be designed if there were a Government Vice-Presidency entirely dedicated to it. The main function of its holder would be to attract investors and corporate headquarters. He or she would spend the bulk of his or her time sitting down with presidents and CEOs in the Americas, Asia and Europe, trying to convince them to establish their corporate headquarters in Spain and engage in investments. His or her success would be measured in terms of this core objective (additional volume of FDI and number of corporate decision-making centres clinched). As in the private sector, in order to encourage performance and attract talent, the achievement or otherwise of this objective would carry incentives.

What possible strategies are there? Three groups of corporations could be considered as key targets: first, multinationals in emerging countries undergoing a process of internationalisation; second, European multinationals in the process of expanding towards Latin America; and lastly, start-ups (in technology, biotechnology, nanotechnology, renewable energies, etc.).

In order to select the first group, that of multinationals in emerging countries, the first step could be to focus, for example, on the 100 largest multinationals in those countries undergoing a process of internationalisation, as identified by the Boston Consulting Group. To this group we should add the 500 largest corporations in Latin America, as identified each year by the magazine *América Economía*: although the battle to convince Indian and Chinese firms to locate their European or EMEA headquarters in Spain will be particularly difficult,

Spain has a comparative advantage with Latin multinationals. This is not to say that Asian or even Middle Eastern multinationals should be ruled out.

In fact some Spanish businesspeople, such as the Spanish head of the Indian group Suzlon, in the wind power industry, are seeking to ensure for their country the corporate headquarters for Southern Europe and Africa. We could imagine the same happening with the Philippine group that owns San Miguel, and Chinese companies such as Huawei and ZTE (with European headquarters in London and Paris respectively), for whom Spain is one of their main customers on a world scale. Equally, the Chinese oil company Sinopec, which has just purchased a stake in Repsol Brazil, may locate its headquarters for Europe and Latin America in Spain. And why should we not also imagine the Chinese white goods group Haier relocating its European headquarters from Varese, in Italy, to Barcelona, or Foton Motors doing so from Moscow to Madrid? The Chinese car manufacturer Chery, which is looking to start up an industrial plant in Europe and expand into Latin America, could likewise choose Barcelona or Bilbao (where it has an agreement with the Berge Group). The Russian Vimpelcom could be imagined moving its headquarters from Amsterdam to a Spanish city, and its competitor Millicom (with several Latin-Americans on its management committee) might do the same from Luxembourg.

Also worth considering are Middle Eastern groups such as the Saudi petrochemicals group SABIC or the Israeli pharmaceutical company Teva (both with European headquarters in the Netherlands). The Emirates multinational DP World, one of the world's main players in port facilities, present in both Spain (Tarragona) and Latin America, could relocate its European and Latin American headquarters, the former now in London and the latter in the US, to Barcelona, for example. It would be a matter of identifying certain groups, sectors and executives to trigger actions. In this strategy, Spanish multinationals that operate or have partners in these countries could be key allies, as some of them are powerful global customers or have international partners seeking to set up in Europe.

In this first circle, expanding Latin American multinationals are of particular interest. The truth is that there is a lot of ground to make up: finally, in 2010, the Brazilian development bank, BNDES, chose London to locate its European office, as did Petrobras. The Chilean Antofagasta, a subsidiary of the mining group Luksic, also has its worldwide corporate headquarters in London. Others such as the Argentinean group Tenaris relocated its corporate headquarters entirely to Luxembourg, while the Brazilian building contractor Odebrecht has decided to direct its operations in Europe, the Middle East and Africa from Lisbon.

But there are already cases of Spanish locations for European or international decision-making centres of Latin-American companies. The most conspicuous examples are the Mexican firms CEMEX and PEMEX. Corporación Andina de Fomento (CAF), an international financial organisation created by the states of Latin America, has also decided to open its European office in Madrid. For their part, the Brazilian footwear manufacturers Alpargatas, who own the brand Havaianas, likewise set up their European headquarters in Spain in order to prise open the entire European market. However, more – much more – could be done in this direction: the Brazilian banks (Bradesco, Itaú Unibanco, Banco do Brasil) are internationalising. Spain could be a location for a European head office. The same could be said of the Mexican Banorte, the Colombian Bancolombia and the Venezuelan Mercantil. The Chilean sovereign wealth fund, or the Brazilian one, might consider opening European offices and locating them in Spain. Spain could be a point of entry for this purpose, offering a location for the EMEA (Europe, Middle East and Africa) corporate headquarters of these multinationals.

To this first circle of companies we could add a second, in a strategy of systematic attraction. This would largely consist of European companies with Latin-American offices and operations. Is there any reason why the EADS group, in which Spain is a partner, in addition to having CASA based in Spain, should not install its Latin-American operations there? One of the three top directors of the mining giant Xstrata, with corporate headquarters in Switzerland, in Zug, is Spanish; what is there to stop this group setting up its

Latin-American decision centre in Madrid, a city that is infinitely better connected than the town of Zug? The Finnish colossus Nokia has its headquarters for Latin America in Miami; why should it not be in Madrid, equally well if not better connected with the region and closer to the global corporate headquarters in Helsinki? Why should we not imagine the British group Bupa (owners of Sanitas in Spain) also moving its Latin-American headquarters from Miami to Spain, along with the German giant SAP?

Just as Spanish companies could help to attract companies in the first circle, here too they could be a great help, many of them probably being the main customers or partners in Latin America for European groups. These first two circles could be complemented by a third, more linked to the world of start-ups and leading-edge companies, especially in sectors such as new technologies, renewable energies, biotechnology and nanotechnology. Here the path to follow would probably be that already initiated, with aggressive attempts to attract the talent of entrepreneurs and innovators, offering them tax treatment fit for Premier League footballers.

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