

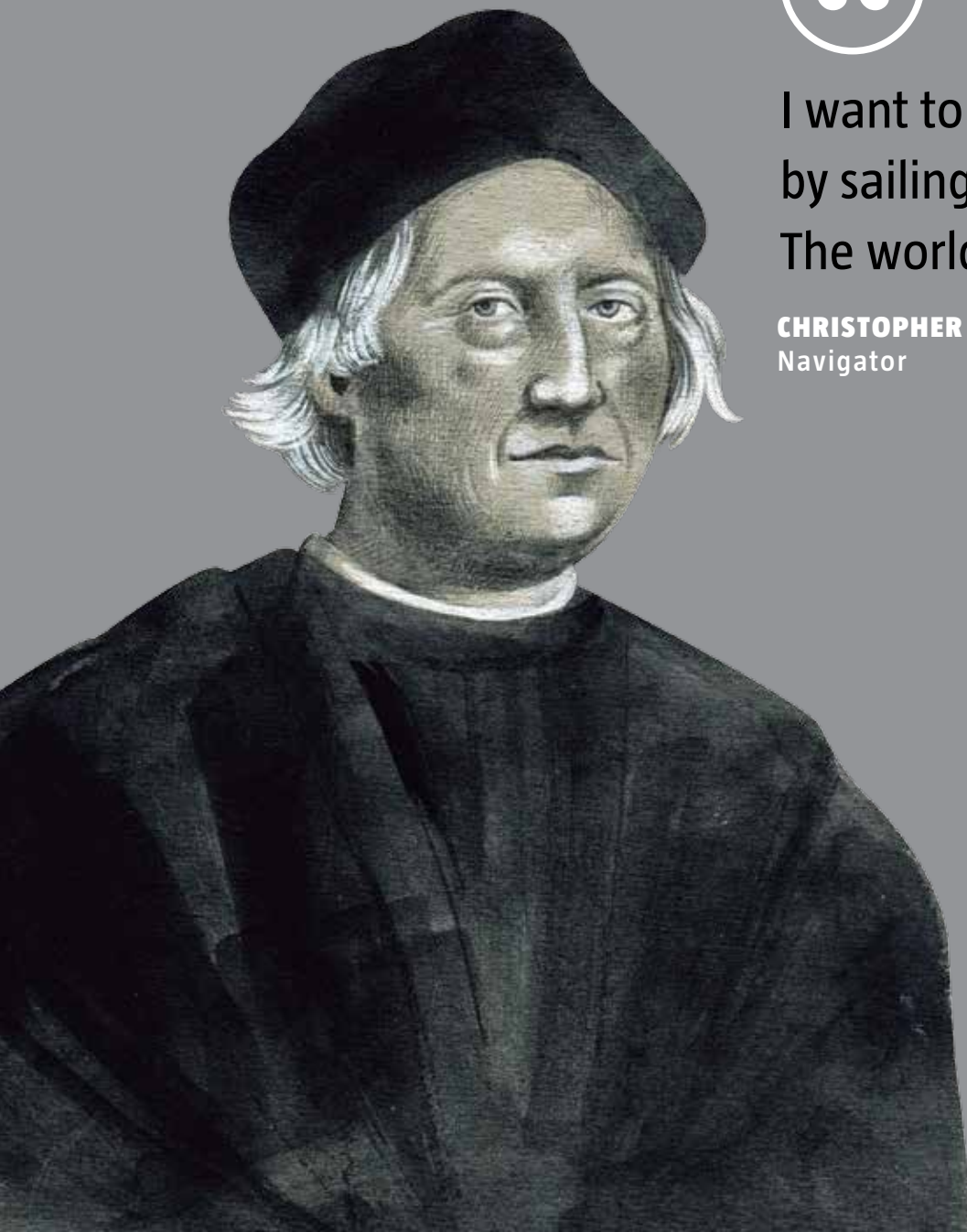
INTERNATIONALIZATION
FOREIGN ACTION

04



I want to go to the Orient
by sailing west.
The world is round

CHRISTOPHER COLUMBUS (1451–1506)
Navigator



YES, INTERNATIONALIZE MORE

Boosting further internationalization in the Spanish economy is not just desirable: it is absolutely essential, and can be achieved by playing to the country's strengths and overcoming some of its weaknesses.



DURO FELGUERA

Gaining territory, dimensions and political support

Europe and Latin America have served as a springboard, but Spain now needs to assert its presence in emerging economies. SMEs should be brought on board, and the country must lose its inhibitions when it comes to supporting foreign policy.



Andrés Ortega

Editor in Chief

Increased internationalization of the Spanish economy is not just desirable: Spain has to make it happen, although there are some weaknesses to address along the way. Internationalization—increasing exports and imports while simultaneously boosting investments abroad and the entry of productive capital—is a positive sum game in which everyone can be a winner. It goes without saying that Spain can be a player too, as has been demonstrated over the years and especially since the country's entry into the European Union in 1986. Today, Spain is the fifth economy in the world in terms of openness (166 percent), measured as the ratio of foreign trade and direct investments to GDP, as compared to 51 percent in 1990. That is to say, in terms of openness Spain is on a par with Germany and ahead of France. Back in the 1980s, Spain had practically no multinational enterprises. Today it has more than 2,500, some of which are leaders in various sectors, competing and trading with

multinationals not just from the First World but also from emerging economies such as the leading Latin American multinational firms, the so-called multilaterals. But there are new challenges to deal with. Internationalization is now more complex than it was just a few years ago. It means getting involved in global value and production chains. Spain's positioning responds to a strategic vision dating from the 1990s, which made use of public enterprises to penetrate the Latin American market, favored by local privatization and, subsequently, privatizations in Spain. This vision also took advantage of the march toward globalization, as well as the need of many enterprises to seek new opportunities abroad (and foreign investment in Spain) during the crisis of 2007 to 2008, although companies would have had to take similar action even without the crisis. But as foreign investors and institutions perceived increasing levels of risk in operations within Spain, some banks withdrew their financing, a

situation that is now beginning to resolve itself.

From the 1990s to today

According to the latest World Investment Report 2014 from the United Nations Conference on Trade and Development (UNCTAD), Spain is the ninth country in capital inflows and the fourteenth in outflows. According to Ernst & Young, Spain occupies one of the leading positions in Europe in terms of attractiveness to investment. The Spanish Institute of Foreign Trade (Instituto Español de Comercio Exterior, ICEX) and the Spanish Export Credit Insurance Agency (Compañía Española de Seguros de Crédito a la Exportación, CESCE), run by the Spanish state, have a crucial role and complement the banking system by covering export credit risks. During the crisis, the CESCE issued more guarantees and sureties to Spanish enterprises so that they could take part in tender processes and international projects, helping Spanish firms to break into foreign markets. The Of-



DURO FELGUERA

Krishnapatnam port terminal, India (left)

Five open-cycle gas turbine units in Maranhão, Brazil (right)

ficial Credit Institute (ICO) has also embarked on programs to encourage internationalization. Following the strategic boost to internationalization of the 1990s, in the early years of the twenty-first century business decisions focused on finding markets and investments, also with the support of the public authorities and with a great deal of success. Today, when taken together, enterprises in the IBEX 35 and many others already generate more than half of their turnover outside Spain. Of the big European economies, Spain (along with Germany) is the only one that has maintained its share of the global market during the crisis (at 2.2 percent, it is higher than the 1.8 percent that represents Spain's contribution to global GDP). This is mainly due to the fact that Spanish enterprises did not exit the markets in which they had already established themselves. If Spanish firms had not been so international, the effects of the economic crisis on the country would have been even worse than they were.

As the Governor of the Bank of Spain, Luis María Linde, pointed out in 2014, "solid export performance has been based both on increased competitiveness and the recovery of foreign demand, as well as factors of a more structural nature that allow us to hope that this potential can be maintained and consolidated over the long term." The structural factors he mentioned include the geographical diversification of the sale of Spanish goods and services to encompass emerging markets, and an increased focus on exports in enterprises, as well as a higher number of companies competing in international markets. But we cannot rest on our laurels when the future is by no means certain. We now need to extend our advantage to foster high levels of growth and job creation in order to avoid remaining a country of low-skilled, low-paid employment. Spanish investments abroad have risen to around 43 percent as a proportion of GDP, almost on par with Germany. But although foreign

investments in Spain increased tenfold between 1990 and 2013, Spain has moved down the rankings from ninth to tenth place, and will have to compete harder against other nations to achieve similar results in the future. This comes at a time when Spain still needs FDI, not just to balance its current account but also to attract technology and talent, and generate quality employment. Spain's balance of trade has stabilized once again—even moving into surplus—although the economic recovery tends to naturally undermine this balance as imports increase. This improved situation is also due to increased competitiveness, as well as greater foreign activity. Exchanges of services have increased, while non-tourism service exports have performed spectacularly well. Many enterprises have made the leap into foreign trade, including large construction companies with portfolios of foreign projects that exceed their Spanish activity by an ample margin. There are some engineering companies that carry out



Freixenet exports
to more than 140
countries worldwide

FREIXENET

almost all of their projects abroad. And, of course, the Spanish financial sector has been able to firmly establish itself in other countries and enjoy a global reach. The outlook for the future is bright. According to a report from PricewaterhouseCoopers entitled *España 'goes global,'* Spanish exports will increase 2.5-fold by 2033, while foreign trade (exports plus imports) will account for some 72 percent of GDP (compared to the current 59 percent). But internationalization is no longer just a matter of exporting and importing; rather, it requires investment abroad (and foreign investment in Spain) involving local manufacturing, despite the problem posed by the relocation of jobs. Added to that is the prediction that in twenty years' time, business services, agriculture, and food may outstrip tourism and the car industry. Various governments have encouraged this internationalization. Mariano Rajoy's government, through its Ministry of Economy and Competitiveness, has implemented a Strategic Plan for the Internationalization of the Spanish Economy for 2014–2015, having seen that this could

provide an excellent mechanism to lever the country out of the crisis. The plan contains 41 measures structured around six themes: improvements to the business climate and entrepreneurial environment; facilitating trade and access to markets; access to financing; the promotion of trade and support for enterprises; stimulation of the culture of internationalization and human capital; and the promotion of innovation.

Weaknesses and challenges

Nevertheless, with an eye to this future there are various weaknesses that must be overcome by public authorities and, above all, by enterprises themselves. First of these problems is that, outside Europe, Spanish investment is excessively concentrated in Latin America, with some 65 percent of Spain's foreign investment destined to that region in the 1990s. During the first decade of the twenty-first century, the Spanish economy has essentially globalized via Europe (61 percent of Spanish foreign investments and 70 percent of trade), Latin America (15 percent), and Canada and the United States, representing

a growing market for Spain and the reason why a positive outcome to the Transatlantic Trade and Investment Partnership (TTIP) negotiations is so important to this country. Within Europe, the main destination of Spanish FDI has been the United Kingdom, followed by the Netherlands and France.

Although some progress has been made since 2007, with the sale of Spanish goods to emerging countries increasing to 30 percent of the total, Spain's foreign trade is excessively regionalized. Europe and Latin America account for 50 percent and 30 percent respectively of Spain's total foreign direct investment. Nonetheless, a certain balance has been restored with Latin America in recent times thanks to that continent's investments in Spain. One challenge faced in internationalizing the Spanish economy is that it now needs to penetrate Asian and African markets to a much greater level. Spain's strongest presence in Asia is in China, followed by India, but Spain remains a long way behind other advanced European economies. Spain should be turning much more of its attention to Asia, while not losing sight of the ground gained in the Americas. The country's activity in Africa is almost entirely concentrated in Morocco. So Spanish enterprises—and Spain's society as a whole—must overcome certain barriers, ensuring improved and increased access to financing, for example, while directors, shareholders and society itself should acquire a broader knowledge of the countries in which they are going to work.

The second challenge this country faces involves increasing the size of the enterprises active in other countries so that they can better compete on the market. Some 66 percent of Spanish multinationals are SMEs. This hampers crucial investment in R&D, thereby impeding the higher level of innovation that is absolutely essential if we are to attain a more advanced level of internationalization. Despite this, today Spain is a net



OHL

Tram in Medellín,
Colombia. The first
modern tram system
in Latin America

exporter of technological products. But this export activity is excessively concentrated, with just fifty enterprises responsible for 32 percent, some one hundred firms accounting for 40 percent, and five hundred accounting for 60 percent of the country's exports. Moreover, just a couple of Spain's Autonomous Regions, including Catalonia and the Basque country, concentrate almost all of Spain's export activity. Besides this, cooperation—on sales, production, distribution, or financing—in destination markets is low, standing at just over 20 percent. Around 40 percent of Spanish foreign sales can be attributed to foreign companies trading in Spain, including all of the country's car manufacturers (although not all companies in the auxiliary industry).

Foreign economic policy

The third challenge is for Spain to develop a much more active foreign economic policy. Even though our country has always implemented an active foreign economic policy—in particular during the recent crisis at the hands of the two governments in charge of that policy—there is still a long way to go if we are to come

close to the diplomatic activity of countries such as Germany, the United Kingdom, France, or the Netherlands. The State Foreign Service Law is a step in the right direction, but it has not managed to bridge the divide between ministries on this matter. The strengthening of the Spanish brand is another positive factor influencing the image of all enterprises undertaking activities in other countries. But ultimately it is the enterprises themselves, their products and services, as well as the country's image in general, that shape this brand.

Finally, there is a lack of liberalization in practice. Many Spanish businesspeople want to invest and participate in tenders abroad, but in some sectors (such as infrastructure and construction) there is some resistance to allowing foreign enterprises to take part in Spanish bidding processes, despite the obligations in this sphere set out by European legislation. However, there is little resistance to allowing foreign capital to be invested in Spanish businesses. In this respect, Spain has an attitude that can be likened to that of the British.

All of this has happened at a time when a change has taken place in the global balance of foreign trade with the advance of emerging economies: China now rivals Spain and the United States in Latin America. Meanwhile, the world's geopolitical risks are on the increase once more, whether due to the destabilization of societies from the inside (some of which are relatively near neighbors), Russia's recent assertiveness, or the very dangerous, transnational jihadi terrorism, a threat exemplified by the so-called Islamic State (Daesh), which wishes to reconfigure the Middle East. Spain, along with its partners and allies, is trying to tackle such new risks, threats, and challenges, along with the uncertainties they bring with them.

Spanish foreign policy has been following the rise of emerging countries very closely in recent years, accompanied as it is by closer trade and investment links. Nevertheless, in order to continue being an attractive destination for productive investment, Spain must not only recover its competitiveness; it also has to offer political and territorial stability in times of change.



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Rafael Myro

Professor of Applied Economics
at the Complutense University of Madrid

POINT

Export, invest, open

The benefits of exports lie not only in increased production but also in productivity, the improvement and creation of products.

The internationalization of the Spanish economy not only refers to exports and investments abroad by enterprises backed with Spanish capital, but also the presence of foreign multinational companies (MNEs) in Spain. Today, such companies are responsible for 30 percent of Spanish exports and 37 percent of Spain's investment abroad. These figures are even higher in the manufacturing sector. Once the postwar period of autocracy had ended, foreign MNEs in Spain experienced an intense period of growth that has continued to the present day. This area still offers potential, as demonstrated by data for 2014, and therefore merits special attention within any policy promoting internationalization.

The process of internationalizing domestic enterprises is nothing new, but it is a sphere that now needs boosting and consolidating. It began in the 1960s, and accelerated when Spain joined the European Community. But the giant steps taken in Spanish foreign investment are a more recent phenomenon dating to the turn of this century. The profound crisis experienced in recent years has provided a potent stimulus for exports. The focus of Spanish foreign investment on more dynamic, non-EC markets has also contributed to accelerating a process that had already been initiated in previous years. The crisis did not diminish investment abroad, although it did slow down the pace of its progress, albeit less than in the four largest European economies that serve as a reference for Spain (Germany, France, the United Kingdom, and Italy).

Exports

Spanish exports have shown themselves to be remarkably competitive. Spain's share of global goods exports has remained practically steady since the year 2000, de-

spite the massive surge in China's share of this market, which rocketed from 3.4 percent of the total in 2000 to 11.7 percent in 2013, causing a drop in the share of all other developed countries, including Germany.

The competitive strength of Spanish exports, which is even more striking given the extraordinary surge in labor costs that Spain experienced in the years before the crisis, rests on four factors: a) a high and increasing alignment between global supply and demand, with various noteworthy products with different levels of technological intensity (medication, cars, chemicals, machinery, metals, food, textiles, and clothing); b) improvements to the quality and uniqueness of products; c) a good combination of old and new markets which has resulted in a healthy pace of progress in foreign demand; and d) the continual incorporation of new enterprises in export activity.

These competitive bases guarantee the fast-paced expansion of exports—but then again, Spain needs such expansion to be fast-paced. And why is that? It is because the country needs to try to achieve GDP growth above 3 percent in order to absorb the impact of the country's soaring unemployment rates. With real growth in exports—not just of goods but also of services—reaching 4.3 percent between 2000 and 2007, Spanish production grew by around 3.8 percent during the period, but with increasing external imbalance that meant that such economic growth was unsustainable. In the sphere of manufacturing the imbalance was even clearer and growth in production was more limited, although Spain still outstripped France and Italy. The reason is that our market is highly dependent on imports, which are difficult to substitute over the short and medium term with

domestic production. Industry depends on exports to grow. Thus, all industrialization must also contemplate boosting exports.

In order to achieve bigger increases in exports, Spain needs to address four comparative deficiencies: a) the country relies on a relatively small number of products. Just 1 percent of the products exported account for 45 percent of export volume, significantly more than in Germany or Italy, or even France; b) there is still an excessive concentration of exports in EU countries (62 percent of goods exported); c) exports are also concentrated in a very small number of very large companies; d) the number of companies engaging in regular export business is low.

In order to redress these deficiencies, Spain needs to bolster the foundations of competitiveness in enterprises, and above all increase their productivity so that they can assume the fixed and variable prices of exporting. This is no easy matter. It requires decisive action to disseminate the available technologies, as well as the corresponding quality standards. There must also be a commitment to human capital in enterprises, and this is key to their professionalism and ambitions, to their size, and to the increased productivity of their workers. The extension of permanent contracts (single contracts) and higher expenditure on training are crucial aspects, as is the expansion of consultancy services promoting good management practices. Policy to promote export trade must be strengthened, with a more active ICEX that can reach out to enterprises that currently do not export.

From the longer term perspective, a firm commitment to innovation is required, since innovation provides the foundation of new products. This calls for serious efforts in science and research on the part of the state, as well as dedication to building a solid network of enterprises based on a clear commitment to joint research. In short, a total overhaul of the institutional fabric of science and technology is in order.

The benefits of exports lie not only in increased production but also in productivity, brought about through the improvement of enterprises' human capital, organizational bases and knowledge of foreign markets—the essential source of improvements to products and the creation of new ones. The figures show a close relationship between enterprises that export and their levels of productivity. When exports exceed 25 percent of an enterprise's sales, productivity gains are multiplied. So the export process feeds itself, strengthening the competitive bases of enterprises that export and generating intangible benefits in the form of knowledge of foreign markets that benefits the whole productive fabric and favors an international outlook in a growing number of enterprises.

Investment abroad

The best proof of the above is that foreign investment is closely associated with exports, and is concentrated in the portion of enterprises with larger dimensions and productivity. This can be attributed to the fact that once a certain level of productivity is reached, enterprises can assume the costs of establishing themselves abroad, and this strategy is more beneficial than exporting to particular markets of sufficient dimensions.

Boosting foreign investments, therefore, provides a knowledge base on foreign markets and improves the competitive advantages of an enterprise through a better accumulation of intangible assets (more brand, technological, and human capital).

The promotion of foreign investment must go hand-in-hand with the promotion of export activities, since they respond to similar stimuli. In this case, medium-sized manufacturing companies with between two hundred and five hundred workers are a very clear target group. Such companies have advanced little since 2000, and consequently constitute very suitable candidates for action.

COUNTERPOINT

Federico Steinberg

Elcano Royal Institute and the Autonomous University of Madrid



Size, diversification, and languages

Although Spain is a country that boasts enormous talent, it needs to adopt policies that reduce the barriers hindering the development of its capacity for internationalization.

The crisis has obliged the Spanish government and society to rethink its model of growth. Now that the worst of the crisis seems to be behind us and the economy has stabilized, certain strategic lines can be drawn to improve the international position of the Spanish economy. This does not necessarily mean following a model like that of Germany, China, or Japan, where exports are the main driving force behind growth; rather, we should take our example from those countries that have a dynamic foreign sector and internationalized companies have an advantage, in particular in times of scarce credit and turbulence in international financial markets. Although Spain is a country that boasts enormous talent, it needs to adopt policies that reduce the barriers that hinder the development of its capacity for internationalization.

SMEs

First, Spain needs to increase the average size of its enterprises if it wants to increase the number of these that export, as well as to achieve strategic integration into the global supply chains that determine trade and investment trends today. Spain has some forty thousand exporting companies, some of which operate on the highest levels. However, while this number might seem high, in reality exports are highly concentrated. A small group of around five hundred large enterprises, representing around 0.2 percent of the total companies exporting in Spain, are responsible for around 60 percent of total exports. This allows us to conclude that Spain still has very few companies exporting goods and services, and consequently the main issue pending in the internationalization of Spain's economy is the need to increase the number of companies trading abroad.

Various studies have identified enterprise size as the key to improving export capacity. Large companies have higher productivity than small ones, find it easier to enter global supply chains, have lower temporary employment rates, invest more in R&D and are able to access better conditions for financing. All of this generates significantly more possibilities of competing in foreign markets. In fact, 90 percent of enterprises in Spain with more than two hundred workers do export, while just 25 percent of companies with less than twenty workers engage in international activity. Moreover, Spanish enterprises with more than 250 employees are just as productive as their U.S. or European counterparts. The problem is that there are substantially fewer large enterprises in Spain and, above all, employment in this country is concentrated in smaller companies with 61 percent employed in enterprises with less than fifty workers, compared with 42 percent in Germany and 37 percent in the United States. Therefore, the country needs to boost reforms targeted at increasing the average size of enterprises. This means simplifying regulations and legal and administrative red tape, in particular to reduce the regulatory hurdles faced by companies above a certain size. Employment regulations and tax incentives should be used to facilitate mergers and acquisitions and provide financial support for SMEs, encouraging them to increase their average size through internationalization. These measures should complement the actions to support internationalization that have been implemented by ICEX, CECSE, or the ICO for some years, providing financial and technical assistance to medium-sized enterprises so that they can internationalize their activity.

Beyond Europe

Second, Spain needs to diversify the geographical destinations of its exports and investments through new trade agreements and improved foreign action. More than 60 percent of Spanish exports are destined for the European Union. Likewise, while Spanish investments are ever more diverse thanks to their success in Latin America markets (and, increasingly, in the United States), the main origin and destination is still the European Union. This geographical concentration generates a vulnerability in Spain, since Europe will be one of the world regions to experience the slowest rate of growth during the coming decade. Thus, it is essential that we accelerate processes to diversify toward markets with better growth potential, something which has been worked on in recent years: in 1995, 70 percent of Spanish exports were to the European Union, demonstrating that there has been some improvement in these figures. Even though the world economy is currently experiencing one of the most open periods of trade in the whole of its history, significant barriers still exist. Achieving progress on agreements to reduce this protectionism is key to ensuring that Spanish companies have easier access to non-European markets—above all, emerging markets—which are the most closed and offer greatest potential growth.

This is why the European Union, where Spain has focused its trade and investment policy, has undertaken an ambitious program of preferential agreements with the intention of redressing the paralysis in multilateral negotiations with the World Trade Organization. Nevertheless, while it would represent significant progress, closing these agreements does not guarantee better penetration of foreign markets for Spanish enterprises. Spanish foreign action will be required, equipped with the right economic instruments to accompany that process. Trade diplomacy—which is not an entirely Europized policy and should therefore be designed in Madrid with a fluid cooperation between a variety of ministries, government bodies, and enterprises—will

be increasingly important to opening new markets. It is particularly important in emerging countries where enterprises (especially SMEs) face an environment that is more uncertain and where information is less reliable. It is also key to winning large international contracts, something that is only within the reach of large enterprises but nevertheless requires support from high-level economic diplomacy if those enterprises are to succeed. Furthermore, we must take into account that improving the country's brand has a decisive influence on the way Spanish products and technology are perceived abroad, and the way public diplomacy and foreign action are able to shape this brand. It is precisely the countries that have a better articulated system of foreign action, accompanied by advanced economic intelligence that are capable of taking advantage of economic opportunities, as well as anticipating and reacting to risks. Spain still has a great deal to do in these spheres.

El inglés

Finally, and as an essential complement to the previous actions described, it is urgent that we improve the foreign language skills of Spanish entrepreneurs, above all in SMEs. Spain's command of foreign languages, and in particular English (which has become the lingua franca of globalization) is still poor. This closes many doors to Spanish enterprises. As a factor that seriously increases the subjective perception of risk in foreign business activities and their objective costs, inadequate language skills act as a glass ceiling to internationalization. This is how excellent products and ideas produced by Spanish talent fail to make it abroad. While improving in languages is a cross-cutting challenge for Spain that goes beyond the problems of the foreign sector—and should, therefore, be dealt with through a comprehensive reform of the education system—support initiatives can be articulated specifically for enterprises in the form of government programs, although these have to have at their disposal a rigorous assessment process to ensure the effectiveness.

TALK ABOUT
THE FUTURE

Carlos Espinosa de los Monteros

High Commissioner for Marca España

Marca España or marcas españolas: Is there more than one “Brand Spain”?

We designed Marca España (Brand Spain) as an umbrella for all kinds of different brands related to different regions, cities, enterprises, or products. Ultimately, this umbrella encompasses, protects, and projects the image of the country as a whole, which is the sum of all of these Spanish brands.

Has Marca España contributed to improving the image of the country within Spanish society?

The project was created with the mission of coordinating activity to promote Spain with a view to improving the country’s image abroad. We realized pretty early on that, in order for those at the cutting edge to be able to do their work, there also had to be a rearguard to back them up. Spaniards must be able to have confidence in their country, regaining their pride in Spain and satisfaction with the country. We have worked pretty hard on this area, attending a lot of meetings at universities, cultural centers and clubs. Spaniards are noticeably more satisfied and have greater confidence in their country now, and this is also linked to the improved economic situation.

Is internationalization an opportunity or a duty?

What the crisis has shown us is that we cannot depend solely on the domestic market because when that market suffers a severe setback, as we’ve seen in Spain, enterprises are very vulnerable and run the risk of collapsing. Our enterprises have learned that tables that stand on four legs are

more stable than those that balance on one leg alone. So they have internationalized, and in some cases this has been a heroic feat because many of these companies were not ready. The majority of enterprises and have understood that internationalization isn’t something you can do in a day. It is the key to the survival of Spanish businesses.

What role does the King have in this respect?

The King symbolizes modern Spain. He projects the image of a young, well-prepared leader with knowledge of issues that he can discuss with anybody in the world. He is knowledgeable about the situation in Spain, and informs his counterparts (other monarchs, presidents, of republics or heads of state) what Spain is and what it can offer. The King supports the participation of Spanish enterprises in international projects and tenders, and his presence facilitates contact with the highest levels of decision-making. Both King Juan Carlos and King Felipe VI have been exceptionally effective in this endeavor. Many Spanish businesspeople are aware of this, and are grateful for what they have been able to achieve in international markets thanks to this support.

Is Europe getting too small for Spain, as it is for other countries?

Yes. When we look at world maps and the specific weight of different regions, in the twentieth century Europe represented half the planet. Now, Europe accounts for 30 percent of the world’s output, and this figure will probably drop to 15 percent in the future. The countries currently growing at rates above 5 percent are all located in Asia. Centers of attention such as the United States now look less toward the Atlantic and increasingly toward the Pacific. That is the reality.

“The King symbolizes modern Spain, and supports the participation of Spanish enterprises in international projects and tenders”

Is it about famous brands or the brand of Spain?

In my view it is brands that are fundamental, because the Spanish brand is made up of all kinds of different brands: commercial, institutional—even personal brands. In this sense, the grounds that make up the brand of Spain are the range of brands in different spheres. Specifically, in the sphere of companies, brands are essential because the world has become globalized and over-communicated. Brands that do not have an identity do not exist.

Do we sell ourselves well, at home and abroad?

We don’t sell ourselves that well, by no means as well as we should given our country’s situation. In this sense, the competitiveness of our products is not matched by sufficient commercial capital to ensure that their internationalization develops as it should. We have to work hard in this respect. And this should be a matter not just for companies but society as a whole.

How can this be achieved?

The crisis has shown this country’s SMEs that they must internationalize. They’ve got the determination. The problem is that they don’t know how to do it. Economic policy is particularly important in this respect. In my opinion, this is the fundamental objective of economic policy in the years to come. It is also the aim of all the institutions lined up to support this adaptation to a globalized world, as in the case of the Chamber of Commerce. This work goes hand-in-hand with other institutions and the relevant government authorities: since we have to move more quickly due to our initial delays, we have to do it together or not at all.

We have to increase the size of Spain’s enterprises.**How can this be done?**

Internationalization is one way of doing it. Freixenet would not be the lead brand in its segment worldwide if it had not embarked on an internationalization process. You have to go for it. At this moment in time, Spanish exports and presence are concentrated above all in Europe and, to a certain extent, Ibero-America. It is true that these are two entirely privileged contexts for Spain, thanks to its position. But that doesn’t mean that Spain should neglect its options in other countries.

Have we overcome the crisis?

We’re on the way. The recovery is happening. It’s being strengthened by the so-called tailwind—that is, decreases in the price of oil and in the value of the euro, which has fallen to a much more appropriate rate against the dollar compared to the rates we saw during the crisis. Meanwhile, Draghi’s plan and Juncker’s plan are helping the recovery happen more quickly than forecast.

And what are the three or four essential goals of this country?

First, political and social stability. Second, businesspeople must be aware of their role and duty. Third, society must recognize this role and duty of businesspeople as fundamental to their wellbeing. The fourth objective must be unity. We must move together in order to move faster and further.

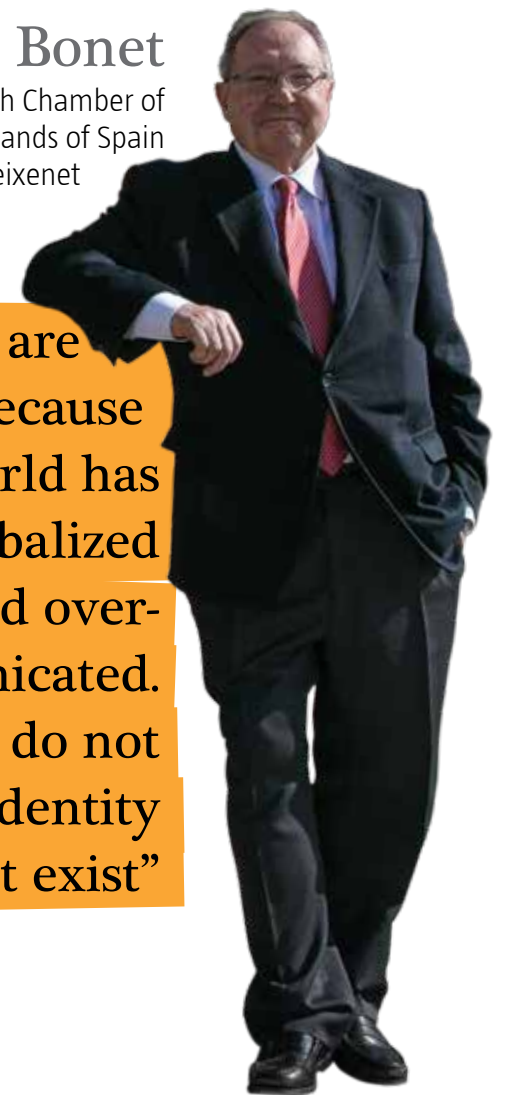
What are the crucial aspects that you would change?

The pressure exerted on certain levels of society is excessive, and this should be reconsidered at a time when the economic situation is improving. This is also reflected in the country’s social burden, where Spain has an evident problem that it must solve.

José Luis Bonet

President of the Spanish Chamber of Commerce, the Leading Brands of Spain Forum, and Freixenet

“Brands are essential because the world has become globalized and over-communicated. Brands that do not have an identity do not exist”



Bernardo Velázquez

CEO of Acerinox

Is Europe getting too small for Spanish enterprises when compared with the rest of the world?

In Spain, we have been thinking about changing our economic model and dedicating ourselves solely to tourism, eradicating industry from our country. But we should reflect on what we are doing because clearly the best thing we can do for the environment is to support European industry. According to a recent study carried out in Acerinox, we omit some 30 percent less CO₂ than the average stainless steel manufacturer worldwide, while the manufacturers with the highest emissions are Asian. If we really want to care for the environment—and that is a global issue—we should look after European industry.

“If we really want to care for the environment we should look after European industry”

Is industry making a comeback?

During the crisis it has been demonstrated that industry is fundamental to the economy. In Spain, we thought that we could rely on a model of tourism and services, but it has become clear that industry is necessary. If industry is making a comeback in other countries that were previously industrialized, it is due to two very important factors. First, southern and eastern countries, Asian countries, have an ever-increasing demand for labor, bringing with it increasing labor costs. The second factor has to do with energy costs. In the United States, the industry that left for other countries—primarily, China—is returning due to energy costs.

Is energy too expensive in Spain?

Yes, clearly. In South Africa, where we have a factory, despite cuts and the current lack of capacity the real price of energy, of Acerinox's bill, is 30 to 40 percent cheaper than in Spain. It would be half that in the United States. While there used to be a difference of 30 percent between Spain and France, and slightly less between us and Germany at 20 percent, given new issues related to CO₂ cost compensation and the subsidies granted in the past, our prices are now going to be double. Electricity-intensive industries are going to find it very difficult to compete in these circumstances. Moreover, we supply other sectors and it is going to make it difficult to attract more industry. We are paying a great deal of items on our electricity bill that are not directly related to the cost of electricity or to supply and demand; the famous peajes, subsidies on supplying the Canary and the Balearic Islands, on Asturian coal, on renewable energies, etc. If Spain really wants to subsidize these sectors, it should look to the central government budget. Subsidies should be paid by the taxpayers and not consumers

in order to avoid penalizing industry and driving up costs for this wealth generator.

What does internationalization mean to you? Is it about exporting or investing abroad?

Acerinox was founded in the 1970s and we started to export very early on. Internationalization is good for the size of a company, its security, and risk management, but logically it also means taking these resources out of our own country. We are the most global manufacturer of stainless steel in the world, the only one with factories on four continents. But at the same time, we would love to see the conditions we need in Spain to continue exporting and generating wealth and employment in our country, and once again we are talking about energy prices, flexibility in labor, and all of those factors.

Aner Garmendia

Director-General of Ega Master

Should there be explicit promotion for internationalization?

We have to educate each other. Many companies have come to the conclusion that they have to internationalize because they are not making as many sales in Spain as they did in the past and they need to find new markets. That's fine, but internationalization is much more than this: it has to form part of a strategy to make a company more competitive in a sustainable way. When you take your business abroad and you immerse yourself in these hostile environments such as Germany, the United States, or Japan, in order to make progress you have to demonstrate that you are not just as good as local brands but better than them. This is what activates the mechanisms that allow a business to adapt and evolve. What's more, the mere fact of having an international presence—above all if it is very diversified—allows you to have your radars set up all over the world, and these can send you information in real time on what your competitors are doing, as well as on new technologies and needs as they emerge.

Is there too much fear of failure in Spain?

There are fears, but there are also objective difficulties. Objective difficulty number one: companies often suffer from a lack of knowledge of what lies outside Spain, which evidently stems from a lack of practice or experience. Objective difficulty number two is their capacity to do business on an international level. The average Spaniard still has no experience abroad. Regardless of the language involved, this affects whether we can hold our own in different environments, not just when it comes to communicating but also in decoding what people from other cultures (who express themselves in a different way) are trying to tell us.

What forecast would you make for the economy in the international context?

Over the short term, we will see a lot of uncertainty and gloom because it seems that the emerging markets,

which have been the driving force over the last decade, seem to be having some engine trouble. Despite having recovered slightly from the crisis, Europe isn't exactly in the best state either. If Europe is not okay and the emerging markets are doing badly, where is international growth going to come from? Spain is facing a complicated situation. In principle, there are a set of variables within the economy as a whole that are very favorable for Spain: interest rates at zero, rock bottom prices on oil and raw materials, and the fact that the euro is cheap against the dollar, meaning that we can now export more. Nevertheless, if we are hardly growing at all despite the situation in Europe, the outlook isn't particularly positive. I really don't know what can be done over the short term. Over the long term, Spain must invest in education. We have to have at our disposal a country of well-trained people who can hold their own on an international level.

Do we have to bring businesses closer to universities?

At EGA Master, the vast majority of leadership roles in the company started work as interns. We companies have to start seeing internships as part of our staff selection process, evaluating our interns during their time with us in order to verify whether they have the qualities that will lead them to succeed in our company.

“If Europe is not okay and the emerging markets are doing badly, where is international growth going to come from? Spain is facing a complicated situation”



INTERNATIONALIZATION
FOREIGN ACTION



TALK ABOUT
THE FUTURE

Ricardo Martínez Rico

Executive President of Equipo Económico

How should the situation evolve in Spain now that we are starting to emerge from the crisis?

With the combination of three broad strategies in economic policy, Spain should be able to overcome difficulties and continue to grow. The first of these strategies involves following an economic policy that will carry us back toward macroeconomic balances, reducing the public deficit and ensuring stability in prices, the current account, and the financial account of Spain's balance of payments. The second is a reform strategy. We have demonstrated that when we reform the largest horizontal and vertical sectors (public administration, the labor market, the financial sector, the internationalization of companies, energy, and so on) our economy starts to grow again. The third strategy has to do with the openness of our economy: we must make efforts to be ever more competitive, not just in Latin America but also in the United States and the United Kingdom. The combination of these three elements will allow us to talk about a return to economic growth and job creation.

Internationalization: a need or an opportunity?

It is a combination of both. During the 1990s, for companies that did business abroad, internationalization represented a huge opportunity, and was also the vision of their directors and managers. But if we look at the year 2012, with a collapse in domestic demand, internationalization was more need than an opportunity. Many of the start-ups that have been generated recently are highly specialized in services, and services are not so easy to ex-

port. But what these companies are good at is investing abroad. In the early 1990s, our investment abroad was scarcely equivalent to 4 percent of GDP, while the latest available data for last year shows that it was equivalent to 50 percent of GDP.

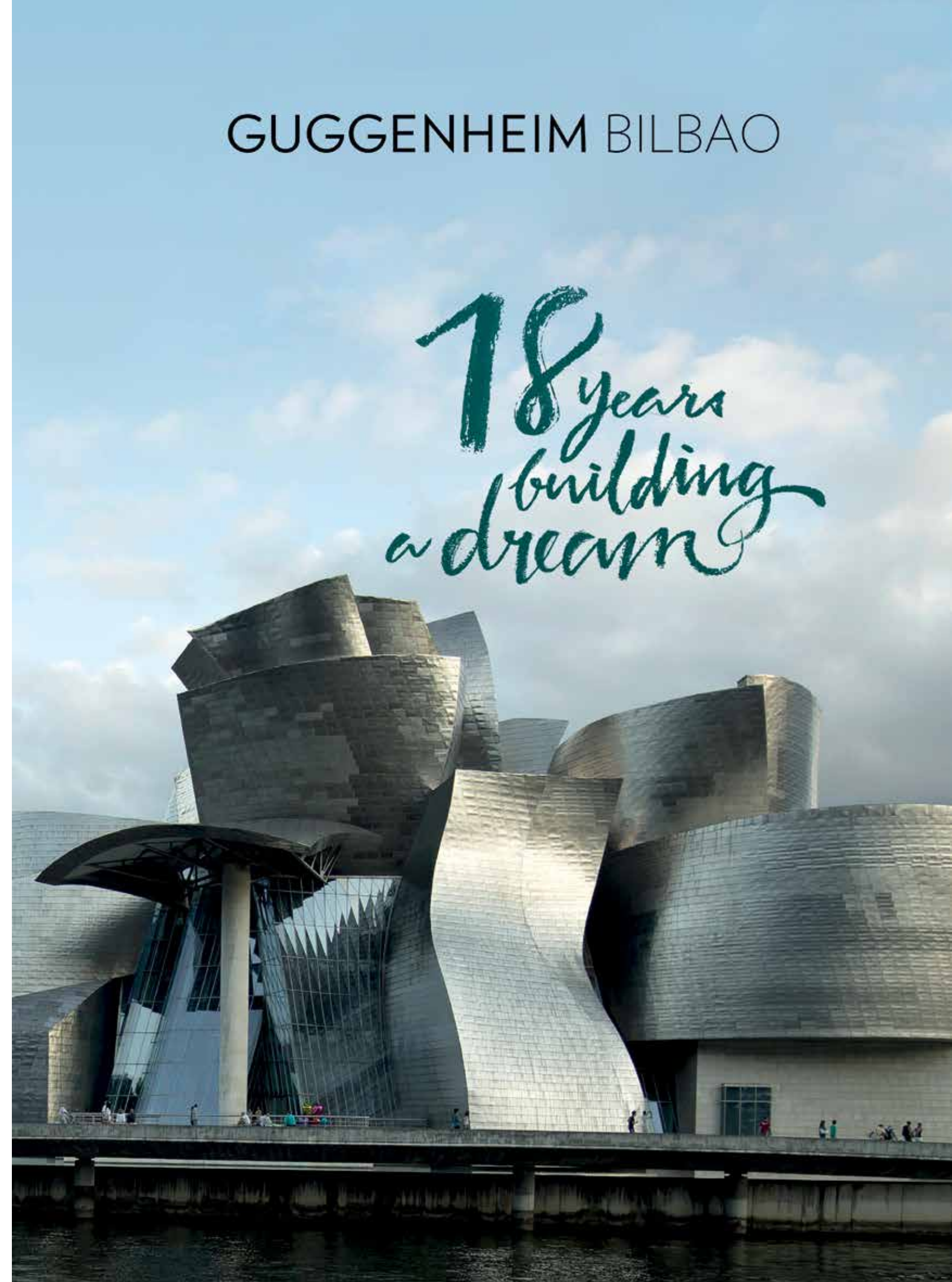
During the crisis many enterprises internationalized that now seem to be coming back to Spain.

I hope that doesn't happen. The data that we have analyzed shows that efforts to internationalize are so important that, once internationalization has been achieved, and having learned the lessons of a crisis of confidence and domestic demand on a grand scale, all efforts have to be made to maintain international trade. Our exports to the European Union accounted for almost 70 percent of the total. This figure now stands at around 63 percent due to the fact that we are becoming ever more global, and that's extraordinary. Some companies are making huge efforts to make sure they've got the United States as their main market or to have operations in Ghana, or be present in South Africa. If domestic demand recovers now and we are capable of maintaining high foreign demand we will increase our chances of growth. Our main investment has been in the most competitive countries in the world, where our companies compete both with local companies and with other businesses from the world's 140 countries that want to find their place in that market. Our companies have undergone a learning process. Some fifteen years ago, the main countries where we invested were Argentina, Chile, and France, where we learned a great deal. Once we learned how to be global investors, Spanish enterprises set their sights on being investors in the most competitive countries in the world. This is also firmly linked to the fact that there are a lot of Anglo-Saxon funds among the shareholders and financiers of our companies: what better than to also invest in this Anglo-Saxon world. Thus, if they then want to knock on Blackstone's door seeking finance, they can say that they're a Spanish company with a great deal of shares in the United States.

**“We are becoming ever more global,
and that is extraordinary”**

GUGGENHEIM BILBAO

18 years
building
a dream





OPPORTUNITY AND NEED

THE BUSINESS PERSPECTIVE

"Globalization should be understood as a challenge in competitiveness. Internationalization is no longer a choice but a reality: we are international, like it or not, since we compete with the rest of the world," claims **Jon Sierra, CEO of Grupo Ikor**. "Internationalization is more of a need than an opportunity: it gives businesses the capacity to face the global competitive situation in a more efficient way," says **Jacinto Cavestany, Vice President of BT for Spain, Portugal, and Latin America**, and "this is demonstrated by the fact that the companies that have best weathered the crisis are those that were able to move into foreign trade." "We don't realize that internationalization should respond to a need within companies and not the will of an external actor who decides that a particular business should go international," **Javier Ruíz de Azcárate, President of Catenon**, points out, adding that "Spanish companies lack multiculturalism," and in Spain "there are many international companies but not globalized ones."

"International trade is growing at rates of almost 5 percent, clearly outstripping the pace of economic growth. Moreover, the number of Spanish companies dealing in exports is growing by approximately 8 percent every year. It seems clear that in foreign trade Spanish business has found the best way of temporarily surviving the crisis, and Spanish SMEs have focused their trade activity abroad based on a genuine need," states **Alejandro Beltrán, Partner and Director-General of McKinsey & Company for Spain and Portugal**.

"We have to think about brands as if they were a product. They shouldn't be created solely with their country in mind but looking at the whole world," says **Félix Revuelta, Presi-**

dent of Naturhouse. "When introducing a product one has to think about the needs of all consumers, of all persuasions. We have to globalize to reach consumers. If I create a product I'm not just thinking that it will be sold in my country. I'm going to sell it in Miami and Nigeria if I can. When the brand Naturhouse was created—and it's very important to create a brand—it was with that intention: to be able to introduce it in as many countries as possible. It could have been called La Casa Natural and that would be fine, it'd reach our five hundred thousand Spanish consumers, but for the international market I needed to find a brand name that was related to what I sell and that would work in all countries."

Internationalization can mean different things to different enterprises. So for an "Iberian" law firm like Cuatrecasas, Gonçalves Pereira "this means accompanying our clients wherever they go," says the company's **President, Rafael Fontana**. "And this means having the best lawyers in any given jurisdiction where their presence is required. Internationalization also means being prepared to serve foreign clients in the countries where we operate (Spain and Portugal). Forty years ago, there were no international firms operating in Spain, and now they compete alongside Spanish firms. But of the five leading firms in continental Europe, three are Spanish."

THERAPEUTIC EFFECTS

The crisis has had therapeutic effects on this aspect of internationalization among Spanish companies. "Three years ago, only one in four businesses dealing with exports did so on a regular basis. Now, it's one in every three," explains **Francisco Javier Garzón, CEO of ICEX**. However "that is not sufficient, and we should set ourselves the goal of not only increasing the critical mass of

exporting companies but also consolidating the number of companies that export on a regular basis." Spain has some competitive advantages in that it constitutes a "unique enclave" for companies wishing to enter the Latin American, European or North African markets, offering "a network of double taxation and reciprocal protection agreements that is unique in Europe, an improved and more robust business environment, tax incentives to innovation, the regulatory framework applicable to holdings in this country, and its privileged geographical location." **Garzón** adds, "Transforming Spain into a business platform that allows us to attract investment should be part of our internationalization strategy."

"While Spanish enterprises' foreign investment stock has risen from the equivalent of 4 percent of GDP at the start of the 1990s to an equivalent 50 percent of GDP in 2014, once internationalization has been achieved businesses should do everything they can to maintain their foreign activity and not be tempted to go back to focusing solely on the domestic market when domestic demand improves," warns **Ricardo Martínez Rico, Executive President of Equipo Económico**.

Again, as in the case of innovation and R&D, the challenge is linked to the average size of Spanish enterprises, which makes internationalization more difficult. But this is also a goal to aspire to, and constitutes a tool that can help SMEs unite and grow, according to the opinion of the majority. In some sectors such as food, "internationalization is the way for SMEs to gain strength and improve their competitiveness," says **Rocío Hervella, CEO of Prosol**. But **Ángel del Valle, Executive President of Duro Felguera**, is of the opinion that "you have to be big to start trading abroad, you've got to have a certain size. I have seen many

small enterprises move into the foreign market. But it's a mistake. They should group together, work in association, in clusters. And the government should help them on the legal aspects, the financial aspects, providing support via embassies, and so on."

Núria Betriu, CEO of Acció Invest in Catalonia, thinks that "support must be offered to companies throughout the process of internationalization, both to SMEs that are beginning to consider the challenge of exports and businesses that have already embarked on an international trajectory and wish to expand their presence abroad. There should also be help for those businesses that want to physically set up shop in another country, collaborate with foreign businesses on technology or access international public tenders."

"The difficult thing about internationalization is that it requires us to send our best people abroad, but we don't do that. Instead, we send people who are having personal, professional or financial problems," **Jon Azua, President of e-novating lab**, laments. "These are often people who haven't been in the organization

for very long, so they do not know its values or its culture. They don't have a sufficient weight within the enterprise or a sufficient commitment to the country they are going to."

THE WHOLE WORLD'S A MARKET

"We are outgrowing Spain—and Europe, even—as a market." **José Longás, CEO of BSH Electrodomésticos España**, believes that "for many years now, the Asians have been our main competitors in our own market, but we are not their main competitors in their market." Many are of the opinion that "industry's market is the whole world," as **Iñaki López, President of Aernnova**, puts it. "In order to attract activity to Spain we have to be capable of bagging a bigger slice of the international market." However, "it is a mistake" to think that "internationalization is the solution to all our problems. We have to encourage it, but we should also take the size of our companies into account. Internationalization is a complex matter: often, you only see returns after some five, six, eight years. It requires significant investment in various countries and involves bigger risks than those faced by companies that just want to export. And export-

ing is a viable channel for development, above all for smaller companies." Somewhat along similar lines, **Asier Atutxa, President of Bilbao Port Authority**, comments that "for Spain, internationalization initially means going for it full on. Internationalization requires significant resources, because you're not going to see any return on your investment for the first four years. So if those resources are not available, it's almost better not to attempt a move into the foreign market. That said, based on the results achieved by many businesses that have gone international, we are now experiencing a second phase in which internationalization is starting to become part of companies' strategy, and is therefore being executed in a much more solid and serious way."

In the opinion of **Javier Latasa, Director-General of Vass Consulting**, managing to make it abroad based solely on your own financial resources is a huge challenge. "The greatest barrier we faced as a private company when we wanted to go beyond Spain was finding the financing we required." **Tomás Pascual, President of Calidad Pascual**, adds: "In general, the companies that have best been able to internationalize are those that have



THE BUSINESS
PERSPECTIVE

seen an opportunity, those that have taken into account the wisdom that says if you want to internationalize, you have to get out there and learn something before you can get out there and sell something.”

But internationalization isn't just outward bound; investments have to continue to flow and increase in Spain itself, since that is where the country's products and services come from. “One of our aims as a country should be to create a unique environment for investment, attractive to multinationals who wish to provide their services from Spain to the rest of the world,” insists **Juan Chinchilla, Director-General of Lenovo**. “The measures taken up to now,” he points out, have allowed his company to “choose Spain from among countries on various continents. Nevertheless, there is still a lot to do in order to consolidate Spain in the role that it is capable of fulfilling as Europe's business platform.”

Are Spanish businesses becoming more global but less European? “It is possible to be international and global, as well as European and Spanish, given that, to a certain extent, our hallmark in Latin America is that of a firm both Spanish and European, with characteristics of the place where we operate,” says **José Antonio Llorente, President of LLORENTE Y CUENCA**, who believes that “Latin America has been crucial in the development of Spain's multinational model. The process of learning what an international organization should be like is gradual, and Latin America has given us a great deal of opportunities.” “In the case of the building industry, European markets tend to be quite stagnant and so Spanish and European companies alike have had to spread across the world.”

Josep Piqué, CEO of OHL, believes that “Latin America is very important to Spain, but so is the United States. From the perspective of a global presence of Spanish business, the

BRICS offer few possibilities, and we have to seek out those that are located somewhere where we can contribute value added. Of course, the ASEAN countries have real potential, as do Australia and New Zealand.”

“There are two things that we hear far too often: one is that it's all about Europe, Europe, Europe, and how our competitors are European. The other is that there are three priority areas of the globe for Spain, and they are Europe, Maghreb, and Latin America. That means disregarding more than two thirds of the world economy: Asia and the United States,” warns **Javier Targhetta, CEO of Atlantic Copper**. “We can keep saying that Maghreb, Latin America and Europe are our best markets until we're blue in the face, and meanwhile China is buying up our companies. It is true that Europe is getting a bit small, but going out in the world should be a voluntary movement emanating from Spain itself. Why aren't there any direct flights to Asia?”

THE SPANISH BRAND
AND ITS BACKING

Is it about the Spanish brand or Spain's reputation? “That's a semantic question. I prefer the term ‘Spain's reputation,’” states **Llorente**, “but I'm willing to agree with the arguments that defend the ‘Spanish brand’ if they think that takes us to a better place. Nevertheless, we have to take into account that our reputation doesn't belong to us but to everybody else, and it isn't an absolute value. Reputation should be regarded from the point of view of our objectives. The reputation of a country that wants to attract tourists is not going to be the same as another country that wants to attract investors. And it isn't a concept that can always have the same definition in all circumstances, given that, in our view, it should be used strategically and with specific aims.”

He continues: “With regard to Spain as a country capable of generating business, we have had an excellent reputation which then suffered a great deal and is now quickly recovering again.” In order to improve that reputation “we need to know what we want: we need to have a clear direction and a clear idea of the competitive context and what we should do,” as well as “assigning the human, economic and technical resources to make it possible. It is confusing to hear politicians saying that the Spanish brand is so important when it isn't being allocated a budget.”

Fernando Carro, CEO of Arvato (Bertelsmann España), regards as “positive any initiative that works to sell Spain and the Spanish brand.” However, “if everything is focused on the public sphere and that brand is created solely by the government then it isn't going to work. We can't ask the government to solve all our problems. As a business, we have a duty to support the government and the society that we work in, helping them to develop. It would be good for the private sector to be more involved.”

“Is there a marketing plan for the Spanish brand?” wonders **Juan Ferrer-Vidal, Director-General of Millward Brown**. “What is Spain's brand positioning? How do we want our country to be perceived? The management of the Spanish brand needs to be more professional: it should not be created via a ministry but with the best marketing experts around. People have to feel in touch with the strategies we embark on, that they have functional and emotional benefits which, in turn, translate into a change of preferences in favor of our environment, our professionals, our businesses and our country.”

“We don't need to have a big name to make our way abroad,” says

Miguel Borrás, Director-General of DHL Express Iberia, in an optimistic tone. “Collaboration and partnership between small enterprises, the solutions contributed by logistics partners and the opportunities provided by e-commerce mean that today small enterprises only need to have dynamism and good ideas to be successful, once they have overcome their fear of internationalization.”

José María de la Torre, President of Hewlett Packard Enterprise thinks that “we Spaniards tend to highlight our defects as opposed to our virtues. I think we should reverse this trend. We need to trust in and be proud of our country and its talent.”

Should the government give help to Spanish companies so that they can win contracts in other countries?

“That depends on the characteristics of the countries in question. There are countries that are more sensitive to political and diplomatic relations. And they tend to be countries where state involvement and intervention in the economy is higher. That is where political support can be very useful,” says **Josep Piqué**. “But this wouldn't make any sense in English-speaking countries. Nobody wins a contract in Canada, the USA or Australia thanks to political support. You win a tender because you offer the best and most competitive project.”

And then there is the question of languages, which we examine in our strategy on education. In terms of the required mobility, which Spaniards have always found quite difficult, “although it is limited today, and our standard of living and

strong sense of roots make it difficult for us to go abroad, our attitude has already started to change. We have broken the barrier, and in a few years we will see a large number of Spaniards going to work abroad,” predicts **Ignacio Mataix, Director-General of ITP**.

“What country should Spain use as a model?” asks **Félix Revuelta**. “We should look to the United States. The Japanese were very clear on this when they started to experience their resurgence. They looked to American culture, and once they had mastered that, they began to innovate. When they tell me that we need to invent I say that everything has already been invented. The United States is a great many years ahead of us. We can learn from them in so many ways.”



▲ Ankara-Istanbul High-Speed Line. Turkey.



▲ Az Highway. Spain.

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