

## **Where is Spain and Spanish Companies Headed?**

Spain has undergone an almost unforeseeable economic and social transformation in the last decade that has had enormous significance. Looking back, in the realm of economics, the most important thing it did was opening up its economy to foreign competition and foreign markets. The time line was simple: (1986) entry into the European Community, (1993) the establishment of the single European market, and (1999) the adoption of the euro, tying Spain into a single currency in a huge marketplace. All of these steps led to a change in the country's economic structure by quickly introducing a large dose of competition into Spanish markets and to Spanish companies. Most experts attribute virtually all of the positive changes in Spanish competitiveness with this opening of its economy to the world.

Initially, this helped attract investment into Spain, both foreign investment and internal investment. Tied into the vast European marketplace, with cheap, but skilled labor, made it a popular place for foreigners and nationals that wanted to capitalize on European sales.

Another major advantage for Spain was Latin America. Tied to the region by language and culture, it became a testing ground for Spanish companies. Having just gone through major political and economic changes, Spanish management found Latin American countries that were undergoing similar changes to be fertile ground for their products, marketing, packaging and cultural knowledge. Spanish companies that went to Latin America were quite capable of developing themselves there, because the environment was similar to their own.

And part of this Latin American migration occurred early in the chronology listed above, when Europe was still very protectionist in many sectors. Latin America enabled Spanish companies to acquire experience, size and scale, enabling them to take advantage of changing conditions back home and in Europe.

Early on in the process, outward investment by Spanish companies was very focused in Latin America. In 1997, 50% of Spain's foreign investments were in Latin America. In 2006, that figure was down to only 4%. Nowadays, Spain's outward investments are largely directed toward Europe. In 2006, the United Kingdom alone took in 56% of the total value of foreign direct investment from Spain. Spanish companies have tried to take full advantage of deregulation in Western Europe, and the UK is the European country that has taken it the most seriously. Other countries in Europe have made only modest changes, leaving the UK to reap-the-spoils of Spanish investment. The United States came next with just 10.5% and Southeast Asia somewhat lower.

Over the last decade, Spain has gone from being a net recipient of foreign investment, to a country that has growing significance and importance as an investor in foreign markets. Spain has become the eighth-ranked investor in the world, behind only the US, the UK, France, Germany, Hong Kong, the Netherlands and Switzerland. Over the past two years, Spain has overtaken and passed Canada and Japan. Today, frequently the latest business news is of

another Spanish company entering a foreign market, or expanding its already existing presence.

That doesn't mean everything is perfect. Spain has a couple of daunting challenges. One of these is Asia. In China and India, Spanish companies face very complex challenges. Spanish companies, and their products, have a very strong tie to their culture. Southeast Asia is an area that has its own strong culture, and it's very different from the Spanish one. This acts as a difficult restraint to significant entrance into the region.

The other is, that with the exception of some parts of Latin America, Spain is poorly positioned when it comes to trade because it sells primarily to countries that are not expanding, while other countries it competes with do sell to faster-growing markets. If Europe and North America are your primary trading partners, achieving rapid growth is going to be harder, and come slower. Its trade patterns don't match-up very well with those of China and India.

To many, that means Spanish companies are going to have to aggressively expand in those markets where they have a presence (particularly Latin America), and to aggressively enter those markets where their products do not have a cultural disadvantage (Europe and the US). That means companies from other regions that want to advance in those same countries are going to face stiff competition from Spain. It also leads many to believe, that the strong euro against the US dollar, lends itself to Spanish companies making some important acquisitions in the US in the next few years, particularly in retailing. Many US retail giants are struggling, and selling out to a well-funded foreign buyer may just be the answer. Spain is well suited right now to fill that role.