



Real
Instituto
Elcano

de Estudios Internacionales y Estratégicos

Spain and the United States

The Quest for Mutual Rediscovery



William Chislett

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Real Instituto Elcano
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Published by the Real Instituto Elcano de Estudios
Internacionales y Estratégicos

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www.realinstitutoelcano.org

Design and layout: Quinteral Servicios Gráficos, s.L.

Printed by: Quinteral Servicios Gráficos, s.L.

Legal number: M - 44417 -2005

Free copy. No sales allowed

*For John Brademas, James Fernández,
John Healey and all the staff of the
King Juan Carlos I of Spain Centre,
New York University, and my
polymathic friend, Felipe Fernández-Armesto*

“There are no permanent alliances, only
permanent interests.”

LORD PALMERSTON,
British Foreign Secretary, 1849

ACKNOWLEDGEMENTS

This is the third book I have written for the Elcano Royal Institute. It aims to cover the investment, trade, defence, political and cultural aspects of the relationship between Spain and the United States. The first chapter, unlike that of the previous two books, sets the scene by recounting more than 500 years of history between the two nations. I believe the reader needs this historical perspective, albeit in a condensed form, to fully appreciate the many complexities of the relationship and what is happening today. This book also exists in Spanish, published by Ariel.

I would like to thank Emilio Lamo de Espinosa, Elcano's former director, for commissioning the book, and Gustavo Suárez Pertierra, the new president, and Gil Carlos Rodríguez Iglesias, the new director, for continuing the project. I would also like to acknowledge the assistance from the following people: Carlos Alberdi, Gayle Allard, Glynis Andrews, José María de Areilza Carvajal, Alfonso Armada, Mario Armero, Miguel de Avendaño, Whitney Baird, Rafael Bardají, Eva Barrionuevo, Fabia Buenaventura, Álvaro Calleja Crespo, Óscar Calvo-González, Manuel de la Cámara, Emilio Cassinello, Peter Cheek, Leslie Crawford, Reginald Dale, Thomas Dauterman, for copiously editing the manuscript, Guillermo de la Dehesa, Lorenzo Delgado, Francis and Patricia Dobbs, Juan Manuel Egea, Carlos Fernández-Lerga, Humberto Figarola, Richard Figueroa, Manuel Flecha, Emilio García, Jacinto García-Díez, Eduardo Garrigues, Richard Gillespie, Carmen González López-Briones, Sarah and Diana Graizbord, Fernando Gutiérrez Junquera, Inmaculada de Habsburgo, Lloyd Hand, Gonzalo de las Heras, Santiago Íñiguez, Silvia Iranzo, Gabriel Jackson, Harold James, John Law, Florencio López Navarro, Carlos Malamud, Edward Malefakis, Jaime Malet, José María Marín Quemada, Ángel Martín Acebes, Jesús de Miguel, José Morales, Edward Mortimer, Antonio Muñoz Molina, Alberto Nadal, James Nealon, Robin Niblett, Andrés Ortega, Jaime Otero, María Jesús Pablos, Rafael Pampillón, Rosa Pardo, Sofía Pérez, Mary Jean Riley, Laura Rohan, Sebastián Royo,

Xavier Ruiz, Aitana Sánchez Gijón, Ignacio Santillana, Raúl Santoro, Fidel Sendagorta, Eduardo Subirats, Julio Tascón, Gabriel Tortella, Carolina Turba, Laura Turégano, José Luis del Valle, Fernando Vallespín, Tunku Varadarajan, Jim Wilson, Stephen Wright and Juan Antonio Yáñez-Barnuevo. My youngest son, Benjamin, helped to prepare one of the appendices, and his brother, Tomás, came to the rescue when I got myself into a muddle on the computer.

I would like to thank Antonio Garrigues for inviting me to speak at the 10th anniversary meeting of the Spain-US Council in Seville. I would also like to acknowledge the generous assistance provided by the King Juan Carlos I of Spain Centre at New York University, which invited me to the Centre so that I could conduct some research in the United States. Lastly, the following people read all or parts of the book and made comments: Javier Rupérez, Spain's ambassador to the United States (2000-2004) under the second government of the Popular Party; Carlos Westendorp, the current ambassador to the United States under the Socialist government; Tom Burns; Jaime Carvajal; Mauro Guillén; Paul Isbell, Elcano's Senior Analyst, International Economy; Manuel Moreno; Charles Powell, Elcano's Assistant Director of Research and Analysis; Lidia del Pozo and Luis de Velasco. Last, but not least, it was a pleasure to work again with Pilar Tena, Elcano's Assistant Director for Institutional Relations.

WILLIAM CHISLETT,
Madrid, Buendía and New York, October 2005
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PREFACE

Once again, our long-time collaborator, William Chislett, has published a marvellously informative and insightful book with the Elcano Royal Institute for International and Strategic Studies. As with Mr. Chislett's previous Elcano books (*The Internationalization of the Spanish Economy*, and *Spanish Direct Investment in Latin America*), he has tackled an important and timely theme in the broad panorama of Spanish interests – relations between Spain and the United States – in his *Spain and the United States: The Quest for Mutual Rediscovery*.

Spanish relations with the United States have been increasingly important for decades now, and all signs point to their continuing significance. The United States remains the most significant economic, political and cultural presence in an international arena in which Spain has also rapidly become an important player.

The Spanish-US relationship has come a long way since the days of the Pact of Madrid in 1953, which set up military bases. Today the bilateral economic relationship is finally beginning to break into more mature terrain, as an increasing number of Spanish enterprises are operating in more significant ways in the US economy, while the US continues to be one of the principal sources of foreign direct investment in Spain.

Indeed, while the Spanish-US economic relationship is one of the most important bilateral relationships for Spain (the US is often characterized, depending on the year, as the number one national investor in this country), it is also the source of significant untapped potential. In our recently published *Elcano Index of Strategic Risks and Opportunities for the Spanish Economy*, the United States is ranked in many years as one of Spain's essential economic partners, alongside the UK, France and Germany. Nevertheless, this importance of the US for Spain's economy is grounded almost exclusively upon the strength of inward investment from the US. While increased activity across the board has been noted in recent years – as Chislett meticulously details in this book – so much potential remains to be tapped in other aspects of the relationship (including Spanish investment in the US, bilateral trade in

goods and services, and tourism) that the US is also often characterized as a “strategic opportunity” by our Index in years when US FDI flows to Spain soften – as occurred in 2004.

Although the bulk of Chislett’s analysis focuses on the evolution – past and present – of the economic relationship between our two countries (covered extensively in Chapters Two, Three and Four), he has not forgotten the essential political, cultural and linguistic components. Chapter One (the book’s longest) presents a magnificent historical tour of the Spanish-US relationship, beginning with Columbus’ late 15th century exploratory voyages, passing through the oscillations in the relationship between the War of 1898 and the 1953 bases agreement, and concluding with an analysis of the contours of the present relationship, as established first by former President José María Aznar, and as recently rearticulated by President José Luis Rodríguez Zapatero.

Chapters Five and Six explore the significance of the Hispanic Community in the United States (along with potential implications for Spain of the growing political and economic importance of this varied minority group) and the realm of cultural relations, including the increasing influence of the Spanish language in North America and the mutual interplay of images and perceptions that Spain and the US hold of one another.

Much of this latter analysis is in large part grounded upon the ongoing work of another of our Institute’s important research projects: the *Elcano Royal Institute Barometer* (or the *BRIE*, as it is known here in Spain). The quarterly *BRIE* continues to track the state of Spanish public opinion with respect to a wide range of Spanish foreign policy issues and Spanish interests in the world. Chislett has astutely integrated ongoing *BRIE* findings with other US sources to articulate his analysis of the mutual perceptions between Spain and the United States.

Lastly, it must be said that Chislett’s book is a welcome addition to a very scant bibliography on Spanish-US relations. In this sense, its publication helps the Elcano Royal Institute to fulfil some of its most basic functions: to provide timely and informative analysis to stimulate the public debate on important Spanish issues in the international arena and to contribute constructively to the reflection of our policymakers in their challenging project of crafting Spanish foreign policy. We encourage the public, both here and abroad, to read this book.

GUSTAVO SUÁREZ PERTIERRA
Chairman
Elcano Royal Institute for International
and Strategic Studies

CHAPTER 1

OVERVIEW

Had it not been for Spain, the United States, as we know it today, might never have existed.

Juan Ponce de León landed in 1513 on the east coast of what is today the state of Florida and claimed it for the Spanish crown. In 1526 Lucas Vázquez de Ayllón explored the coast of Georgia and South Carolina, and in 1539 Hernando de Soto landed on the west coast of Florida with a large company, becoming the first white men to see the Mississippi River. Alvar Núñez Cabeza de Vaca sailed along the northern coast of the Gulf of Mexico and went through what is today Texas. In 1565 Pedro Menéndez de Avilés founded St. Augustine in Florida, the oldest continuously inhabited city in the United States.¹ When the English ship, the Mayflower, arrived in Plymouth, Massachusetts, in 1620, the Spanish empire was already well established.

At the time of the American Revolution (1775-83), almost all of the modern-day United States west of the Mississippi River up to Canada, as well as what is now called Mexico (then known as New Spain), was a territory of Spain. Spain was an ally of France and an economic competitor of Great Britain. It took the side of the American rebels, more out of hatred for Britain, its old rival, than for any enthusiasm for the cause of independence, which it feared would spread to the Spanish colonies in Latin America, as it eventually did. Spain hoped that a British defeat would enable it to recover those parts of Spanish America (Jamaica, Honduras, parts of west Florida) and Europe (Gibraltar and Menorca) that the British had occupied.

1. The Americas are named after the Italian navigator Amerigo Vespucci, who sailed in 1499 – seven years after his friend and rival Christopher Columbus first landed in the West Indies. Vespucci's breakthrough came on his second voyage, when he realised that what he was exploring was not India (as Columbus had thought) but a new continent. He verified this by following the coast of South America down to within 600km of Tierra del Fuego. "Since Europe and Asia have received the names of women, I see no reason why we should not call this other place Amerige or America, after the wise man that discovered it," said the German cartographer Martin Waldseemüller in 1507.

Louisiana's governor was a young Spanish nobleman named Bernardo de Gálvez. Before Spain declared war on Great Britain in 1779, Gálvez had been in contact with the American political leaders Patrick Henry, Thomas Jefferson, and Charles Henry Lee and had secured the port of New Orleans so that only American, Spanish and French ships could move up and down the Mississippi River. Gálvez, under the instructions of the Spanish crown, aided the American Revolutionaries by allowing tons of badly needed supplies to be shipped up the Mississippi to patriot forces in the North. He also raised an army that included Creoles, Native Americans, free African-Americans and his own Spanish regulars. In 1780, Gálvez captured the British-held forts at Baton Rouge and Natchez. A year later he successfully laid siege to Fort George in Pensacola, and in 1782 he captured the British naval base at New Providence in the Bahamas. The city of Galveston, Texas is named after him.² The names of many US states are of Spanish origin. Nevada, for example, is named after the Sierra Nevada mountain range (*sierra* is Spanish for mountain range and *nevada* means snow-covered). The name Key West, in Florida, derives from the bad pronunciation of Cayo Hueso by the English.

Spain established regular diplomatic relations with the United States in 1785, six years before Britain, and signed the first treaty in 1795.³ The first recorded celebration of Columbus Day in the United States took place on October 12, 1792. Spanish influence was also seen in the adoption of the dollar and its symbol, which is said to derive from a handwritten 'p^s', an abbreviation for *peso* in old Spanish-American books. The dollar symbol (\$) first appeared in the 1770s, in manuscript documents of English-Americans who had business dealing with Spanish-Americans. It started to appear in print after 1800.⁴

Under the Transcontinental Treaty (1819), the United States obtained Florida, while Spain, in return for a US promise to stay out of Mexico⁵, recognised the Louisiana Purchase of 1803 (the sale to the United States by the

2. The decisive Spanish role in the creation of what is today the United States is generally downplayed or not taught at all in US or Spanish schools – nor is it recognised in most official ceremonies. The history of this period is essentially presented as one of England and the United States. The role of France is also marginalized, but nowhere near as much as Spain's. Only about 30% of Spain's credits to the revolutionary forces were repaid, on the grounds that the rest was not properly documented because of its secret nature. In this sense, Spain was more generous than France, which was repaid in full.

3. Under the Treaty of Friendship, Limits and Navigation between Spain and the United States, the United States obtained all its long-sought claims, principally the right to free navigation along the Mississippi River 'from its source to the Ocean' through the huge Spanish-owned Louisiana Territory. Spain gained nothing from the treaty – neither a firm alliance nor a mutual guarantee of territory.

4. The name 'dollar', however, derives from the Dutch or Low German word *daler* (in German *taler* or *thaler*). Spanish dollars, or 'pieces of eight,' as they were called, were in circulation in the 13 colonies that became the United States and were legal tender in Virginia.

5. As a result of the 1847 war between Mexico, by then independent from Spain, and the United States, Texas and what is now New Mexico, Arizona and California became part of the United States.

French of more than two million square kilometres of territory, from the Mississippi River to the Rocky Mountains).

Almost a century later (1898), Spain and the United States went to war over Cuba and Puerto Rico. From the early days of the Republic, US politicians considered Cuba's geographic position – 140km from Florida and commanding important seaways connecting the Atlantic Ocean with the Gulf of Mexico and the Caribbean Sea – as vital to the United States. This had been enforced by the 1823 Monroe Doctrine, which announced that America, both North and South, was for the Americans and clearly went against Spanish interests. Some politicians feared that after Spain lost all her other colonies in Latin America Great Britain or France might gain control of Cuba and threaten the United States. They supported the Cuban insurgents seeking independence, and this led to Madrid breaking diplomatic relations with Washington and the US Navy blockading Cuba. The 1898 “disaster”, which had a short-term catastrophic effect on the Spanish economy (Cuba was a protected market for Catalan products), triggered a long period of introspection. The Spanish-American War was the last war fought by Spain with any foreign power.⁶ It was also a defining moment for the United States, because it turned the country into a colonial power and reinforced its influence over the Caribbean and East Asia.

Spain was neutral during the First World War. It did, however, intern a small German force in its African colony of Spanish Guinea in November 1915. The war greatly benefited Spanish industry and exports; the country was a significant source of goods for France, other allies and South America. The post-war era was one of considerable political and social strife in Spain, culminating in the abdication of Alfonso XIII and the establishment of the Second Republic in 1931 and the 1936-39 Civil War.

President Roosevelt, wrapped up in his New Deal isolationism and anxious not to alienate the Catholic vote (which basically supported Franco), condemned General Franco's uprising against the Republican government but kept his country out of the conflict (the approximately 3,000 Americans who formed the Abraham Lincoln Battalion and fought on the side of the Republic notwithstanding).

The Franco regime emerged victorious from the Civil War and established a dictatorship that lasted until 1975, when the *generalissimo* died. Although officially neutral during the Second World War, the wily Franco helped Hitler and Mussolini, both of whom had supported him materially during the Civil

6. In a burst of jingoism, and as part of the national subscription in 1898 to raise funds for the war, a *corrida* was held in Madrid with two famous bullfighters, Guerrita and Luis Mazzantini. When it came to saluting the president of the bullring, Guerrita took off his hat and told the spectators that he would like “nothing more than for the bull to turn into a yanqui” so that he could plunge the sword through his heart. Mazzantini said “all the funds from the *corrida* should be used to buy dynamite so that this country of adventurers called America can be blown to pieces.”

War. Franco ratified a Pact of Friendship with Germany after the world war broke out, he exported wolfram (a key ingredient in the manufacturing of high-quality steel for armaments), steel, mercury and zinc to the Nazis, he sent the Blue Division to fight alongside the Wehrmacht on the Eastern front, and he made overtures to Hitler (whom he met at Hendaya on the French border) to bring Spain into the war in June 1940 after the fall of France (the asking price of control of Morocco was too high, however, because it would have upset Vichy France).

The victory of the allies in 1945 left the Franco regime very much of a pariah in the United States and Europe.

1. From out in the cold to a place in the sun

The United States, Britain and France issued a Tripartite Declaration on March 4, 1946, which stated that Spaniards could not look forward to “full and cordial association” with them as long as Franco remained in power. Spain’s ostracism was designed to bring about “a peaceful withdrawal of Franco, the abolition of the Falange, and the establishment of an interim or caretaker government under which the Spanish people may have an opportunity freely to determine the type of government they wish to have and to choose their leaders”.

However, no direct action was taken to achieve these goals, although Spain was politically ostracised later that year by the United Nations, which adopted a resolution calling on members to withdraw their ambassadors from Madrid. There was no US ambassador to Spain until 1950, when this ban was lifted. The Spanish government was also barred “from membership in international agencies established by or brought into relationship with the UN and from participation in conferences or other activities which may be arranged by the UN or by their agencies.” As well as political and diplomatic ostracism, the US government barred Spain from the 1948 Marshall Plan, impeded trade with it and shut off public and private loans.

The US stance against Franco was to some extent dictated by the position of its European allies, who were even more adamantly opposed to the regime. Winston Churchill had lost the 1945 election to Clement Atlee of the Labour Party, and his deputy, Herbert Morrison, had been one of the leading opponents of the Chamberlain government’s non-intervention policy during Spain’s Civil War. Pushing Spain’s membership of NATO (created in 1949) and allowing it into the Marshall Plan would have deeply upset Britain and France, whose support President Harry Truman needed to contain Russia. Truman, a

committed Protestant, also took seriously that community's complaints that their freedom to worship in Spain was severely restricted.

In this climate of hostility, Franco created the so-called "Spanish lobby". In 1945 he sent José Félix de Lequerica (Spain's ambassador in France during the Nazi occupation), who had been refused by the United States as Ambassador, to Washington as "Inspector of Embassies and Legations". His main mission was to create a lobby and win support for the regime, particularly among those congressmen, senators and influential Catholics who were well disposed towards Franco.

He did not have to lobby that hard, although large amounts of money were spread in pursuit of the goal. Events were to bring the United States and Spain together.

On the one hand, Spain was destitute and internationally ostracised. The Spanish economy was on its knees after the Civil War. Spain's real GDP declined 36% between 1935 and 1938 and 28% in per capita terms. Slightly more than half of the active population worked on the land, with antiquated technology. Moreover, winters were unusually harsh and crops poor. The 1940s were known as the 'years of hunger'. The Argentina of General Juan Domingo Perón, one of Franco's few allies, came to the rescue after 1946 and saved Spain from starvation by supplying it with wheat and meat (56 years later Spain shipped food and medicine to Buenos Aires, in the wake of the collapse of the Argentine economy and the default on its massive debt). Argentina stopped shipping to Spain in 1949 because of lack of payment by the government. Per capita consumption of meat and wheat in 1950 was still just half the pre-Civil War level.

On the other hand, Washington concluded that its policy of isolating the country had strengthened Franco, hindered Spain's economic recovery and made her cooperation less likely in the event of another war. Dean Acheson, the Secretary of State, said the policy had not only "failed in its intended purpose, but has served to strengthen the position of the present regime". More significantly, the Pentagon, the body most directly concerned with the Cold War challenge, had its eyes on establishing military bases in Spain because of its geo-strategic position at the southern tip of Europe guarding the entrance to the western Mediterranean.

Spain was the missing link to close the network of forward-deploying US bases that the Strategic Air Command was keen on establishing to encircle the Soviet Union (bases were established in Portugal's Azores in 1951 and in Turkey in 1952). The National Security Council issued a report in December 1947 on Spain (known as document NSC 3) whose purpose, in the words of US Under-Secretary of State Robert Lovett, was to "quit kidding ourselves as

to our interest in Spain and to reorient our policy in relation thereto". Truman grudgingly approved NSC 3 and it became official policy in 1948.

A policy paper by the Department of State and the Department of Defence similarly concluded: "In the light of the intensification of the 'Cold War', the potential military importance of Spain [...] has increased in importance to such a degree that the security interests of the US and the NATO nations now require that a programme [...] should be put into effect, despite political objections, in order to provide at least for indirect Spanish cooperation within the Western European strategic pattern."

The idealistic approach towards foreign affairs was abandoned for a classical Realpolitik⁷, to the displeasure of Washington's European allies, particularly France and the United Kingdom. The courting of Franco also led Washington to withdraw OSS (the precursor of the CIA) agents from Spain who were investigating the regime's links with the Third Reich. It was privately agreed that Spain did not have to return most of the gold assets it had received from the Nazis (only a small part was returned during the 1940s⁸). Much of the Nazis' gold that went to Spain and other neutral countries came from European Jews who perished in the Holocaust.

In March 1950, the US government dipped into its surplus stocks and sold 86 million pounds of potatoes to Spain, thereby helping to end the potato rationing that had been in force since the end of the Civil War in 1939. This was the first official US assistance (it was preceded in 1949 by loans of \$25 million from Chase Manhattan Bank and \$20 million from the National City Bank of New York to the Instituto Español de Moneda Extranjera).

The turning point came on June 24, 1950, when communist North Korea invaded non-communist South Korea, under US control since the end of the Second World War. By then the Soviet Union had atomic bomb capability, and the staunchly anti-communist Franco was playing his card as the "Sentinel of the West" for all it was worth. The intense anti-communism in the United States in 1948-54 (McCarthyism, the witch-hunt named after Senator Joe McCarthy) also helped to create the appropriate atmosphere for a rapprochement with the Franco regime. National security factors began to weigh increasingly in Spain's favour; Washington dropped its planned demand for economic policy reform as a prerequisite for the provision of aid. Shortly afterwards, the US Congress earmarked \$62.5 million under the Mutual Security Act to be loaned to Spain by the Export-Import Bank (Eximbank). The

7. See the chapter on Spain and the United States, 1945-75 by Boris Liedtke in *Spain and the Great Powers in the 20th Century* (Routledge, 1999), edited by Sebastian Balfour and Paul Preston.

8. This was revealed in the report on looted Nazi gold released in May 1997 and drawn up by the US State Department and ten other agencies.

money was used to purchase cotton, fertiliser, tractors, wheat, coal, equipment for railways and for the development of mining and hydroelectric power. Truman sent Stanton Griffiths as ambassador to Spain at the end of 1950, after the United Nations allowed ambassadors back into the country following a break of four years, and Admiral Forrest Sherman, chief of naval operations, met with Franco. In 1951, the US Congress voted Spain a further \$100 million. Spain's real GDP jumped 17.6% in 1951, in no small part due to the US inflows, which began to reactivate an economy "held together by bailing wire and hope."⁹

Franco played hard to get and in return for the bases repeatedly held out for large amounts of money that Washington rejected. In the final stages of the arduous negotiations, he told his negotiators "in the last resort, if you don't get what you want, sign anything they put in front of you. We need that agreement."¹⁰ By the time the Pact of Madrid to establish air bases at Torrejón (near Madrid), Zaragoza and Morón de la Frontera and a naval base at Rota was signed in 1953, Dwight Eisenhower, the commanding general of the victorious forces in Europe during World War II, was president. As a military man, he was more in tune with Franco than Truman (who in a press conference had equated Franco's regime with Hitler's and Stalin's¹¹). Eisenhower became the first US president to visit Spain in 1959.

The agreement was controversial, especially for France and Great Britain, which believed it undermined the moral authority of the Western block, and for liberals in the United States, democrats in Spain and Spaniards in exile. France and Britain, however, were trading with Spain. When asked why France was importing oranges from Spain, De Gaulle famously said that he "didn't think oranges were fascist". A New York Times editorial said the United States was "swallowing a bitter pill"¹², and the American Protestant community expressed its outrage. For Franco, the agreement was a triumph, particularly as no political liberalisation was demanded. The dictator's regime gained international respectability, especially in the multilateral area (Spain joined the United Nations in 1955). Internally, the dictatorship felt more secure with US troops on its soil, although by then the threat to it from the political opposition was negligible as it was weak and divided. As a contemporary analyst put it, Spain had gone "from United Nations outcast to United States partner"¹³.

9. See *New York Times*, quoting a report by a US economic mission (October 28, 1951).

10. See p. 623 of *Franco* by Paul Preston (HarperCollins, 1993).

11. "There isn't any difference between the totalitarian Russian government and the Hitler government and the Franco government in Spain. They are all alike." (*Documentary History of the Truman Presidency*, vol. 25, p. 45).

12. See *New York Times* (September 28, 1983).

13. See "Franco's Foreign Policy: From UN Outcast to US Partner" in *World Today* (vol. 9, no. 12, December 1953).

Spanish democrats, however, felt abandoned, and this was to generate anti-Americanism and make it difficult for them to back Cold War policy (see Chapter 6). Instead of GIs liberating Spaniards from an authoritarian yoke, they consolidated the dictatorship.

2. The 1953 bases agreement: a marriage of convenience¹⁴

Spain missed out on the Marshall Plan, which benefited almost all European countries outside the Soviet bloc after World War II. This was amusingly satirised in Luis García Berlanga's famous 1953 film *Bienvenido Mr. Marshall*, whose subtleties escaped Franco's censors. One of the scenes shows a large American car carrying a Mr. Marshall speeding through a village and passing crowds, leaving nothing in its trail but dust and dashed hopes. The aid that Spain received via the three agreements of the Pact of Madrid, covering defence, economic cooperation and technical assistance, was probably nowhere near as much as it might have received from the Marshall Plan, but it was far from insignificant, as we shall see. More importantly, over the long term direct and indirect US influence arising from the Pact played a role, albeit one that is difficult to quantify, in ending Spain's autarchic policies and paved the way for the 1959 Stabilization and Liberalization Plan, without which the Spanish "economic miracle" of the 1960s might not have occurred.

The economic agreements, by helping over the long term to create a property-owning, middle class in Spain, widened Franco's base of support; this, it can be argued, was one, among many factors, that later explained Spain's peaceful transition to democracy. US officials claim some credit for the transition on the basis that "the best hope for the end of authoritarianism, the return of democracy, and the opportunity for anti-Franco political groups to participate and compete in the political process was economic and social progress. Only thus would there be a reduction in social tension that had contributed to such severe conflict, and to the regression to authoritarianism."¹⁵

For the United States, the agreement was a very acceptable alternative to Spain's NATO membership (it was a kind of backdoor entry), which its European allies were not prepared to countenance (Spain did not join until 1982). The naval base at Rota, for example, saved the US government tens of millions of dollars a year as its submarines did not have to go to Charleston or New London every 56 days for replenishment and supply (a 14-day round trip).

14. This section draws substantially on the many works by Angel Viñas, particularly his book *En las garras del águila* (Crítica Contrastes, 2003) and *Negotiating the US-Spanish Agreements, 1955-88* (Jean Monnet/Robert Schuman Paper Series, vol. 3. no. 7, September 2003).

15. See p. 13 of *The Forces of Freedom in Spain, 1974-79* by Samuel D. Eaton (Hoover Institution Press, 1981). Eaton was the US ambassador to Spain during this period.

Later, the runway at Rota became a valuable asset to the US Air Force when Washington lost its bases in Morocco in 1963. The runway was lengthened so that it could handle landings of B-52 bombers and KC-135 tankers in emergency situations. Rota became, and still is, one of the three largest and most important US bases outside continental America for strategic deterrence.

The US-Spanish relationship is the longest-standing association with a foreign country in Spanish contemporary history. According to Angel Viñas, the leading Spanish historian on the subject, “Spain had changed orientations in its foreign policy posture (leaning either toward France or the UK, whose actions usually restrained the Spanish margin for manoeuvre, or briefly to Germany) but in no case did such orientation lead to a permanent alignment.” That changed with the bases agreement.

In the domestic arena, Viñas lists five main consequences of the Pact of Madrid:

- The agreement was essential in engineering a pervasive feeling of security in the dictatorship, which had been hotly contested in the immediate post world war period.
- It became the mainstay of what might be called a “Franco model of deterrence”. Externally, it was applied to North African security scenarios. Domestically, it was applied to the “internal enemy” (the vanquished in the Civil War and all those who might actively oppose the dictatorship). This was not lost among US decision makers. What Spain needed (and got), said President Eisenhower, was a “good little army” that could keep the country stable.
- It led to the introduction of modern approaches to economic management and opened the door to Spain becoming a member of the Bretton Woods institutions (International Monetary Fund and World Bank). Without this, Spain would not have established an economy linked to the global one.
- It gave Spain respectability and led to visits by Presidents Eisenhower, Nixon and Ford (no European prime minister or head of state met Franco apart from Portugal’s dictator, Oliveira Salazar). Furthermore, the US government did not interfere at all in Spanish domestic affairs even to the extent of not giving any kind of moral support to the political opposition during Franco’s last years.
- The US connection produced a strong anti-US sentiment among the Spanish left, which, combined (for very different reasons) with the

attitude of the right, in particular Catholic fundamentalists, parts of the army and the Falangistas, made the United States not very popular among Spaniards after Franco died in 1975.

The most difficult part to negotiate were not the conditions under which the United States would be allowed to activate or put in a state of alert the bases and military facilities in the event of an armed conflict (which remained a secret until 1979), but the accompanying economic assistance. Unsurprisingly, given the economy's parlous state, Franco was hard to satisfy when it came to money.

Franco was very accommodating over the activation clause (Spain merely had to be informed of the undefined "evident Communist aggression which threatens the security of the West"), although in order to save face and claim no loss of sovereignty it was kept out of the public domain. The bases were put on a state of alert because of the 1958 Lebanon crisis, the evacuation of the Congo in 1964 and Libya in 1969, hardly acts of "Communist aggression" and "threats to the security of the West."

The agreements enabled the United States to introduce nuclear weapons into Spain (Rota had Polaris submarines after 1963) and to carry out flights over Spanish territory with nuclear weaponry. This became a sensitive issue after the infamous Palomares incident in 1966, when a collision between two US planes led to the dropping of four H-bombs, one of which landed in the Mediterranean. However, despite the public outcry (muted in Spain because of a shackled press), Article VII of the technical (and secret) agreement – which gave the US forces total freedom to move inside Spanish territory, territorial waters and air space – was not modified until 1970.

The bases agreement went through seven rounds of negotiations between 1953 and 2001, four during the dictatorship and three during the post-Franco democracy. There were ups and downs during the negotiating processes and brinkmanship on both sides. In 1963, for example, Spain threatened not to renew the agreements unless the conditions set by the Americans were improved considerably. Washington knew this was a bluff and did not give in. Five years later, at the height of the Vietnam war, Henry Kissinger, head of the National Security Council, threatened to cancel the agreements. The domestic mood in the United States had turned against military commitments abroad. Madrid rapidly reduced its request for military aid from \$1 billion to \$300 million and finally to \$50 million worth of military aid and \$25 million of credits, and agreed to locate the 401 Tactical Fighter Wing at Torrejón after US missiles were withdrawn from Turkey following the Cuban missile crisis. The terms of the agreement remained essentially the same until the second negotiation in 1986-88, when the Socialists put their foot down and demanded

a much more balanced relationship that ended Spain's subjugation and erosion of national sovereignty.

During the Franco regime Spain was viewed as little more than a strategically located piece of real estate. In order to defend the West from communism, the United States believed it was necessary to embrace a lesser evil. "The values of freedom and human rights that the United States predicated in the hard struggle against communism would always be kept in abeyance when tin-pot dictators controlled pieces of geography that could be used to defend freedom worldwide," noted Viñas.¹⁶ This was not the first time the United States had placed military security considerations above those of political principles (for example, its wartime relationship with Stalin). Moreover, the United States always had the edge over Franco because, in the last resort, the connection was vital for his regime and could not be endangered. The two sides were thus condemned to agree.

3. The impact of US aid on the economy in the 1950s

The Spanish economy started to grow again at about the time of the US bases agreement. Real GDP grew at an annual average of 4.7% between 1951 and 1960 (at market prices) compared with 1.2% between 1941 and 1950.¹⁷ Growth was even faster in the industrial sector, suggesting that a structural change was taking place. The annual average growth of real industrial output between 1951 and 1960 was close to 7% (less than 3% in 1941-50). The pre-Civil War levels of most macroeconomic variables were regained in the early 1950s and thus growth after then was "new" and not due to reconstruction, especially since the capital stock had surpassed the pre-war level by 1949.

The total amount of all types of American aid in the first decade after the 1953 agreement was around \$1.5 billion (half of what Italy received from the Marshall Plan). The Spanish economy, however, was less than half the size of Italy's. As of 1963 the United States ceased to provide economic aid and restricted its funds to military assistance only.

16. See p. 6 of *Negotiating the US-Spanish Agreements, 1955-88* (Jean Monnet/Robert Schuman Paper Series, vol. 3. no. 7, September 2003).

17. I am particularly grateful to Óscar Calvo-González for permission to substantially draw on his unpublished thesis, *The Political Economy of Conditional Foreign Aid to Spain, 1950-1963: Relief of Input Bottlenecks, Economic Policy Change and Political Credibility* (Ph.D. dissertation, London School of Economics and Political Science, 2002). I also refer to his working paper *The Impact of American Aid on the Spanish Economy in the 1950s* (LSE Working Paper 47/99) and *Bienvenido, Míster Marshall, La Ayuda Económica Americana y la Economía Española en la Decada de 1950* (Revista de Historia Económica, 2001).

Eximbank, a key player in post World War II American foreign economic policy, provided a \$62.5 million credit line between 1953 and 1959 at 3% annual interest and to be repaid in 40 semi-annual payments starting five years after the first disbursement. These funds were used for foodstuffs, coal, cotton and other inputs, equipment for infrastructure, agricultural and steel industry machinery, electricity industry equipment and other capital goods. Power cuts and electricity shortages were severe and hindered output growth. Electricity producers received the largest share (28%) of all capital goods financed with aid between 1952 and 1963. Eximbank also granted loans of \$24 million to purchase cotton. The \$62.5 million was authorised under the General Appropriation Act. In a second phase of lending, Eximbank used its own funds and was not limited to a special provision. Between 1956 and 1963 it loaned \$138.3 million, which the Spanish government again used to purchase capital goods.

The relatively modest amount of funds enabled Spain to overcome serious shortages of imported inputs needed to put some of her industries back on their feet, particularly electricity, and in agriculture the machinery and fertilisers enabled Spain to produce more food. Basic infrastructure, such as roads and rail track (heavily damaged during the Civil War) was improved and the foreign exchange shortage alleviated. The evidence suggests that without the easing of severe bottlenecks and shortages, albeit to a limited extent, the Spanish economy would not have been able to grow at the speed it did during parts of the 1950s. While the US aid was significantly lower than that received by its European neighbours via the Marshall Plan between 1948 and 1952, this is something of a simplification of the underlying picture. Spain's US aid in absolute terms was roughly equivalent to the level of Marshall Plan assistance to Germany and higher than the average quantity received by all of the 15 Marshall Plan beneficiaries. Nevertheless, there were major differences between Spain's US aid and the Marshall Plan assistance. First, Spain's aid was spread out over 14 years, while the Marshall Plan lasted only four years and was mainly concentrated during the two first years of the programme. Secondly, much of Spain's aid was given in the form of concessional loans, while most of the Marshall Plan consisted of grants.¹⁸ The aid to Spain during the 1950s averaged around 1% of GDP, far below the average 2.5% that Marshall Plan recipients enjoyed over a much shorter period. US economic and military aid to Spain between 1946 and 1975 amounted to \$1.97 billion, 1.05% of the world total.¹⁹

18. See p. 8 of *The Spanish Economic Experience: Lessons and Warnings for Latin America*, by Paul Isbell (Working Paper 20/2004, Elcano Royal Institute).

19. See the chapter by Núria Puig in *España y Estados Unidos en el Siglo XX*, edited by Lorenzo Delgado and María Dolores Elizalde (Consejo Superior de Investigaciones Científicas, 2005).

The position of the Eisenhower administration was “to grant Spain the minimum amount of additional economic aid necessary to ensure internal stability so that the use of our bases there would not be jeopardised by civil disorders.”²⁰ This explains the continuous American concern about inflation, because the more it rose the greater the potential for unrest in Spain. The Spanish government took this point on board.

Another element of the aid package was defence support. This totalled \$488 million between 1954 and 1964. It was initially used for foodstuffs, coal, cotton and other inputs and capital goods and from 1958 for development projects. This aid generated a counterpart fund in pesetas, a mechanism also used in the Marshall Plan. The government was required to pay in pesetas the equivalent value of dollars received, using a specified exchange rate of 35 pesetas per dollar. The percentage of counterpart funds to be used by the Americans was fixed at 70% (60% to finance the base construction programme and 10% for administrative expenses in Spain). Marshall Fund recipients, in contrast, were able to use 90% of counterpart funds (as opposed to Spain’s 30%) to develop their economies.

The provision of agricultural surpluses under the aid programme started, as we have seen, before the signing of the Pact of Madrid in 1953. Spain received close to \$500 million under all the mechanisms envisaged in Public Law 480 (PL480), a sales programme in which agricultural surpluses were exchanged for local currency to be used by the American legations in the field.

Lastly, other elements of the aid programme included the donation of foodstuffs through PL480 (distributed by *Cáritas*) and military aid, which took the form of deliveries of items to the armed forces. The value of these items was more than \$300 million.

The economic assistance programme committed Spain to “stabilise its currency, establish or maintain a valid rate of exchange, balance its government budget as soon as practicable, create or maintain internal financial stability, and generally restore or maintain confidence in its monetary system”, as well as “discourage cartel or monopolistic business practices and business arrangements which result in restricting production and increasing prices or which curtail international trade, encourage competition and productivity and facilitate and stimulate the growth of international trade by reducing barriers”. In other words, create a market economy. Had these conditions, which were in stark contrast to Spain’s policies at the time, been rigorously enforced, the impact would have been dramatic and probably undermined the regime. The regime initially paid scant attention to them. Over the long term, however, it

20. See *Memorandum of Discussion at the 248th Meeting of the National Security Council*, May 12, 1955. FRUS, 1955-57, XXVII, p. 537.

was perhaps these conditions, as much as the amount of the aid itself, which eventually helped Spain become a successful economy as they brought autarkic Spain into contact with liberal capitalism, albeit gradually.

The aid also brought about a change in the source and destination of Spain's foreign trade. The share of goods imports from the United States rose from 12% to 26% between 1953 and 1956, and the share of Spain's total exports taken by the United States increased from 7% to 13%. Until 1981, the United States remained the largest single country supplier.

The United States on its own did not exercise direct leverage over Spanish economic policy-making, although it did manage to encourage the pro-reformers. Advocates of autarky also had the wind taken out of their sails as inflows of US aid eroded their siege mentality and their claim that autarky had been imposed from outside. Washington saw multilateral organisations as a more effective way of exercising leverage over Spain and realized that its own best policy was to keep its distance. The US connection opened the door to the International Monetary Fund (the initial \$12 million quota came from a loan from Chase Manhattan) and the Organisation for European Economic Co-operation (OEEC), the forerunner of the OECD, and led to the 1959 Stabilisation Plan, which was supported by these entities and by extra US funds (\$30 million in Eximbank loans). The plan, with the goals of lowering inflation, redressing the balance of payments problems, opening up foreign trade and liberalising the domestic economy, was a pre-condition for joining the institutions, and its final text was seen by the US government before it was officially sent to the IMF. It represented an abrupt and decisive change from previous economic policies and enabled the Spanish economy to take off during the 1960s. A year after its adoption Franco admitted that "without the plan, we were heading towards bankruptcy."²¹

4. The advent of US-style business schools in Spain

One of the longest-lasting effects of the Pact of Madrid was the establishment of US-style – as opposed to European-style – business schools, which have exerted a strong influence on the modernisation of Spanish management. Today they are flourishing in Spain. One of them, ESADE, was ranked third in Europe in 2004 and the fourth internationally by the US magazine *Business Week*. The other two are IESE and the Instituto de Empresa. Spain is the only country in Europe other than the UK with three of the top-ranked business schools.

21. See p. 294 of *Mis conversaciones privadas con Franco* (Planeta, 1976) by Francisco Franco Salgado-Araujo.

The first such school in Spain was the Escuela de Organización Industrial (EOI) set up in 1955 by the Spanish and US governments. The United States also used another entity, the Comisión Nacional de la Productividad Industrial (CNPI), established in 1952 before the bases agreement, to “disseminate the core ideas of capitalism and free enterprise and to convince the local population of the goodwill of the Americans and the superiority of their economic model in order to accept the presence and the risk of foreign soldiers at home.”²² This task was particularly important in a heavily regulated economy.

The United States Operating Mission in Spain (USOM) used the CNPI, founded by Fermín de la Sierra, to implement the technical assistance programme. Sierra, a young engineer, went to the United States in 1946 and 1947 and became acquainted with the new management models taught at the top business schools and their implementation in large companies. Under this programme, 2,222 Spanish technicians and senior managers studied in the United States and Europe between 1953 and 1963, while several thousand people benefited from courses given in Spain.

In 1956, a group of businessmen who had visited the United States founded the Asociación para el Progreso de la Dirección (APD) to promote the introduction and exchange of new management ideas. The APD was closely modelled on the American Management Association and is still very active today. Its leading founder was José María Aguirre, the owner of the construction company Agroman, which was one of the few private Spanish companies to be granted a loan by Eximbank in 1951. Another supporter – and later president of the APD – was Antonio Garrigues, an international lawyer who introduced many American firms to Spain. He was Franco’s ambassador to the United States in 1962-64, at the start of the wave of US investment in Spain.

The EOI offered two postgraduate programmes, one modelled after the University of California at Los Angeles (UCLA) and the other on the Carnegie Institute of Technology. The basic principle was to make engineers (who dominated the large and medium-sized companies) more business-minded and managers more industry-minded. Around ten US professors taught at the EOI, which the Instituto Nacional de Industria (INI), the public sector’s industrial conglomerate, and the Industry Ministry had hoped would be a training ground for INI managers. However, these hopes were dashed by the bases agreement. This was fortuitous because it meant support and ideas for a private sector that was very weak at that time.

22. Núria Puig in a chapter called “Educating Spanish Managers” in *Inside the Business Schools*, edited by Rolv Petter Amdam, Ragnhild Kvålshaugen and Eirinn Larsen (Copenhagen Business School Press, 2003). This section draws on her chapter.

The Catholic Church, a pivotal institution in Spanish educational and social life, was also very active in the 1950s and 1960s in supporting liberal capitalism. The EOI was the pioneer, and still exists, but it has been supplanted by ESADE (Jesuit), ICADE (Jesuit), IESE (Opus Dei), which took the Harvard Business School as a model, and the Instituto de Empresa (independent).

As a result of the prominent role of the Catholic Church, the American influence in Spain's business schools has not been as hard-nosed as it might otherwise have been. The Jesuits, for example, introduced socially-minded concepts. Nevertheless, as Núria Puig points out, latecomers to capitalism such as Spain tended to show a greater eagerness to adopt the economic organisation of the leader.²³

5. US investment in Spain, 1950-70

The United States became the main foreign investor in Spain in the 1950s and 1960s, outstripping France, Germany and the United Kingdom, previously Spain's main investors. The US bases agreement acted as a stamp of approval for the American business community, while the Stabilisation Plan engineered a long period of the highest growth in Europe and a consequent surge in the demand for consumer and capital goods, transport equipment and public works. The peseta's devaluation was a shot in the arm for tourism: in 1960, for the first time, the number of tourists was roughly the same as Spain's population: 35 million.

In 1936, at the start of Spain's Civil War, Germany had 15 firms in Spain, France ten and the United States seven.²⁴ The US firms included National Telephone, International Harvester and General Electric. The inflow of US investment declined 70% between 1936 and 1946 and then picked up, but it did not recover the pre-Civil War level until 1962. It gathered pace after 1963, when restrictions on foreign investment (limited to a maximum 25% stake) were eased. This came nine years after James Clement Dunn, the US ambassador to Spain, had publicly asked for 51% foreign ownership to be allowed.

US foreign direct investment (FDI) increased from 12% of the total in 1936 by the seven main investor countries to 40% in 1970.²⁵ During the 1950-58 period, US FDI accounted for 12.5% of fixed capital formation, a

23. Ibid.

24. Detailed information on this period is scant. See p. 15 of *International Capital before "Capital Internationalisation" in Spain, 1936-59* by Julio Tascón (Minda de Gunzburg Centre for European Studies, Harvard University, Working Paper no. 79).

25. Ibid. p. 20.

significant proportion. The actual amount, however, was small. The flow of new US direct investment was just \$22 million in 1950-59, compared with more than \$1 billion of US aid, making the latter a much more important contributor to Spain's economic growth.

It was in the 1960s that US investment in Spain took off, rising from 6.2% of total FDI in 1959 to 79.5% in 1966 (see Exhibit 1.1). The Spanish government set up an Information Office in New York in 1960 to attract foreign investment. The number of US companies in Spain rose from 19 in 1955 to 106 in 1961 (see Exhibit 1.2). The companies operating in Spain during the 1960s included Texaco and Standard Oil (energy), Abbot Laboratories and Pfizer (chemicals), Babcock & Wilcox and Westinghouse (manufacturing), Coca Cola, Pepsi Cola and Colgate-Palmolive (consumer goods), American Foreign Insurance (insurance) and Hilton (hotels).

Exhibit 1.1 US Direct Investment in Spain, 1960-68 (US\$ millions)

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
US investment	1	2	8	9	28	35	54	109	70	106
Total investment	16	36	17	24	47	84	125	137	189	158
US share (%)	6.2	5.5	21.6	37.5	59.5	41.6	43.2	79.5	37.0	67.0

Source: Stanford Research Institute (1972) and Juan Cuadrado Roura (1976), reproduced in *Empresa y Redes de Empresas en España. Una perspectiva histórica y global*, edited by Julio Tascón (LID, Madrid, 2005).

Exhibit 1.2 US Companies in Spain, 1868-1961*

Activity	Before 1914	1914-45	1955	1961
Energy	-	-	-	22
Mining	-	-	-	4
Steel and construction materials	-	-	4	9
Chemicals	-	1	7	16
Manufacturing	2	7	1	17
Consumer goods	-	1	2	9
Banks and insurance	2	-	1	7
Hotels and other	3	5	4	22
Total	7	14	19	106

(* These are the companies whose existence is known.

Source: Julio Tascón in *Las redes de empresas yanquis en España desde los treinta hasta los años del "milagro"*, in *Empresa y Redes de Empresas en España. Una perspectiva histórica y global*, (LID Editorial Empresarial, Madrid, 2005).

Most of the US investment during this period was in manufacturing and industry and not in services, a characteristic that still exists today, albeit to a much lesser extent. It was during this period, for example, that US companies gained a foothold in the motor and pharmaceutical industries in Spain. US

companies today manufacture around one-third of all new cars in the country and account for close to 40% of total pharmaceutical sales (see Chapter 2). Two US car companies (Ford and Opel) are among the top ten exporters in Spain (see Chapter 4). The establishment of companies in Spain also led to the transfer of technology.

The American (and European) film industry also came to Spain in a big way, making many “spaghetti” westerns, particularly near the Mediterranean coastal town of Almeria (whose tiny desert was also used for David Lean’s *Lawrence of Arabia*).

6. Fulbright Programme

As well as the aid programme, support for business schools and direct investment, the connection with the United States was enhanced by the Fulbright Scholarship Programme, which was established for Spain in 1958. Over the course of close to half a century this programme, founded in 1946, has enabled some of Spain’s best minds to study in the United States and for American scholars to visit Spain.

A significant number of Spanish Fulbright scholars have achieved leading positions in the public and private sectors. Probably the most notable of Spain’s Fulbrighters (in 1968) is Javier Solana, a professor of solid-state physics who was Minister of Culture, Minister of Education and Foreign Minister during the 1983-96 period of the Socialists, NATO secretary general (1995-99) and since then the European Union’s foreign policy chief.

Spain’s Fulbright programme, started in 1958, is the third largest in the world after Germany and Japan in terms of the budget allocated and the number of scholars every year (see Chapter 6). The programme has so far benefited more than 7,000 Spaniards and Americans. The programme for Spaniards was initially linked to political objectives. An internal US report prepared in 1956 on the subject said its purpose was “to make Spaniards feel confident about the capacity of the United States to lead and defend the free world from the communist threat, through greater knowledge of its history, culture, economy and scientific techniques.”²⁶

As a result of the Fulbright and other educational exchange programmes, the United States is the main destiny of Spanish students and researchers. In 1924, the first year for recorded figures, there were 52 Spanish students in the United States, 132 in 1950, 466 in 1975, 2,050 in 1987, 4,673 in 1997 and

26. See *Educational Exchange: Study of ICA-IES Relationship*, 3.1.1956. NARA, RG 59, DF 5111.523/1-356.

3,631 in 2003 (the fourth largest number from Western Europe after Germany, the United Kingdom and France), according to the Institute of International Education. The flow of American students to Spain has been much greater. Their number rose from 165 in 1955 to 744 in 1960, 2,103 in 1967, 1,738 in 1972, 1,894 in 1982, 8,840 in 1997 and 18,865 in 2003 (the third-largest number in the world after the United Kingdom and Italy).

7. The US role during Spain's transition to democracy, 1970-82

In the revealing words of Wells Stabler, the US ambassador to Spain from 1975 to 1978, the United States “really didn’t do a great deal” to develop some form of policy towards a post-Franco Spain.²⁷ The main – some would say the sole – concern were the bases, whose importance increased after the United States was forced out of Libya in 1970. Fearful of antagonising the regime, which made a “terrible fuss” about any form of contact between the US embassy in Madrid and the opposition, however tame it might be, US diplomats had virtually no relationships with the opposition.

President Richard Nixon came to Madrid in October 1970, accompanied by Henry Kissinger, head of the National Security Council, who found Franco’s Spain “as if suspended, waiting for life to end so that it could rejoin European history.” In January 1971 Prince Juan Carlos visited Washington and shortly afterwards Nixon sent General Vernon Walters, deputy chief of the CIA, on a secret mission to ask Franco what would happen in Spain after his death. Franco told Walters that Juan Carlos would become king without any disorder and that “the army would never let things get out of hand.” In May 1975, six months before Franco died and when there was a state of exception in two Basque provinces, President Gerald Ford visited Spain, a trip that Stabler described as achieving “absolutely nothing at all except, again from Franco’s point of view, to indicate that Spain’s big friend was rallying around.”²⁸ Stabler persuaded Ford and Kissinger to meet some “very tame” members of the opposition, all of whom had been at one time “violent Francoists”. But Prime Minister Carlos Arias “turned to ice” when he saw the list and demanded the meeting be called off, which it was. Stabler believed Washington should have put its foot down. “It would have been a signal – though a very minor one – that we did have some view about relations with the opposition.” The ambassador later, and on his own initiative, began to meet members of the opposition, including Felipe González, head of the Socialists

27. See the “The View from the Embassy” by Wells Stabler in *Authoritarian Regimes in Transition*, edited by Hans Binnendijk (Centre for the Study of Foreign Affairs, US Department of State, 1987).

28. Ibid.

and prime minister from 1983 to 1996. Such was the strength of anti-American sentiment at the time that the Socialists, for this and other reasons, spent three months after receiving the invitation deciding whether they wanted any of their members to meet US officials.

The bases agreement came up for its fourth and final renewal under Franco in the twilight months of the dictator. What most interested the United States was not actively aiding the advent of democracy but guaranteeing its continued access to the bases and ensuring they were as free of constraints as possible. This was in stark contrast to West European countries, which were then building bridges with the opposition to Franco. When Ford expressed concern to Germany's Helmut Schmidt about the possibility of losing the bases, Schmidt told him that "in order to be sure of your bases and your strategic links with Spain the day after tomorrow, you should also speak about it with those who will be in power in the future."²⁹

The negotiations, fortuitously as it turned out, were not finished by the time Franco died on November 20, 1975 (and the United States, unlike Europe, sent a very high representative – Nelson Rockefeller, the Vice President – to both Franco's funeral and the proclamation of Juan Carlos as king). The prolonged talks opened a window of opportunity for Washington to support, albeit timidly, the establishment of democracy. In early 1976 José María de Areilza, the Foreign Minister, managed to convince Kissinger of the need to use the new bases agreement to give a strong signal of support to King Juan Carlos and the emerging political forces. The pact, based on successive executive agreements (which meant it did not have to be approved by the US Senate), was elevated to the more dignified form of a treaty. The Senate expressed the hope that the treaty would "serve to support and foster Spain's progress toward free institutions and toward Spain's participation in the institutions of Western European political and economic cooperation."³⁰ The withdrawal of Poseidon nuclear submarines from Rota was also agreed as a result of the political fallout from the Palomares incident, when four hydrogen bombs were accidentally dropped on Spanish territory.

The first post-Franco governments backed NATO membership to the immense pleasure of Washington, which had long lobbied for Spain's entry but which in the dictator's day it never pushed for over the heads of its European allies the way it did the bases agreement. But it was a contentious issue for the Spanish left, which saw NATO membership as aggravating the Cold War environment. At the same time, hard-line Francoist elements in the armed

29. See pp. 167-68 of *Men and Powers: A Political Retrospective* by Helmut Schmidt (Random House, 1989).

30. See US Senate, Committee on Foreign Relations, *Executive Report No. 25 on the Treaty of Friendship and Cooperation with Spain* (May 20, 1976).

forces were not happy at the democratic direction in which the country was moving, and on February 23, 1981 members of the Civil Guard, headed by Lt. Col. Antonio Tejero, stormed the Spanish parliament as part of a failed coup. Instead of rallying to the support of the beleaguered government, the US Secretary of State, Alexander Haig, a former general, said the coup was “a Spanish internal affair.” This unfortunate remark confirmed the belief of the Spanish left, and democrats as a whole, that the US government placed little importance on the fate of Spanish democracy and that it still hankered after the cosy relationship it had during the Franco regime. The left was also antagonised by the heavy-handed US intervention in Central America during the early 1980s, following the Sandinista revolution in Nicaragua. The centrist government of Leopoldo Calvo Sotelo pressed ahead, and in May 1982 Spain entered NATO. The October general election, however, was overwhelmingly won by the Socialists, who were against NATO membership and committed to submitting the issue to a referendum.

8. The watershed 1988 bases agreement

The Socialists, in a policy U-turn, campaigned, to the great relief of the US government, for a “yes” vote in the 1986 referendum on NATO membership (their campaign slogan was “In the interest of Spain”) and they won the day (52.5% in favour and 39.8% against). But they attached three conditions to the irritation of Washington: Spain would not join NATO’s integrated military structure; the ban on nuclear weapons in Spain would remain and, most importantly, there would be a gradual reduction of the US military presence in Spain including the F-16 jet fighters. For the Socialists, overcoming the Francoist origin of the bilateral agreement would only be achieved by reducing the US presence and not just by joining NATO. What Kissinger had feared in 1970 and 1974 would now come to pass.

Prime Minister Felipe González set the tone for the negotiations in a seminal speech in Washington in September 1985: “We should not be surprised that those defeated in the Civil War and the democratic opposition in general should have viewed the treaties as American support for the dictatorship and a blow for the hopes of a rapid democratic restoration in Spain.” The Socialists, emboldened by NATO membership and entry into the European Community, which made Spain a much more attractive country for the United States as it consolidated Spain’s market economy and democracy, took a tough position in the arduous 1986-88 round of negotiations. They pressed for a much more balanced relationship and made it clear from the outset that if no agreement was reached by the time the accord expired in May 1988 the United States

would have to pack up and go home. This warning sent a shiver through the US military establishment because it was feared that a US exit could trigger a domino effect in other European countries.

There was a great deal of brinkmanship on both sides. George Shultz, the US Secretary of State, told González the United States was not used to staying where it was not wanted and perhaps it should pull out completely. González replied that this was not what Spain wanted, but if the United States wished to leave then it would be necessary to start discussing how this would be done.

The Spanish side pursued five objectives: (1) A more-than-cosmetic reduction in the military presence. (2) A new setting based on mutual respect, sovereign equality of the two parties and a fair burden-sharing of the defence effort. (3) A reshaping of the procedures and control systems of the authorisations to use the support facilities by the US forces. The Spanish left was particularly unhappy that US aircraft based at Torrejón refuelled US planes supplying Israel during the 1973 Yom Kippur War, which breached the strict neutrality declared by the Spanish government (and was hushed up by both sides). González denied Washington permission in 1986 to use the bases to bombard Libya. (4) The separation of the security and defence relationship from any other kind. (5) The updating of the provisions relating to manpower and privileges.

Francisco Fernández Ordóñez, the Foreign Minister, put the position clearly when he told Shultz: “What we want is a balanced relationship, not subordination. We want a relationship between allies, we want a relationship between equals, we do not want a military overextension.” Spain now had its first chance to achieve this.

The negotiations dragged on for two years. The government doggedly stuck to its guns and did not buy the US argument that if it could not take over responsibility for the NATO missions fulfilled in Spain by the forces then it should allow them to stay. In the end, Washington relented and national pride was recovered with an eight-year agreement, overwhelmingly approved by the Spanish parliament, that laid the foundations of a more balanced relationship and no longer made Spain a kind of vassal of the United States. The US presence was reduced by around 40% (4,500 military personnel and 500 civilians) and concentrated in Rota and Morón.

9. Relations with the United States, 1988-96

Once the bases agreement and the NATO issue were settled, Spain's political relations with the United States were on a more even keel and this enabled the Socialists to develop a generally good working relationship with Washington.

It is fair to say that, without this new warmth, Javier Solana, Felipe González's third foreign minister and an anti-NATO activist in his 40s (as a young man he wrote a pamphlet called *50 Reasons to Say No to NATO*) would not have won US support to become NATO Secretary General in 1995. The nature of the relationship also changed because Spain itself had changed a great deal in the first 13 years since the death of Franco, much more so than the US, as was to be expected. As well as NATO, it was a member of the European Union and its economy was growing rapidly.

Spain moved, in Washington's eyes, from being an unpredictable ally (NATO referendum) to a reliable friend in an hour of need (the bases in Spain and armament factories played a key role in the 1990 Gulf War). Between 1989 and 1999, a US military aircraft landed or took off from a Spanish base on average every hour, and every day a US warship cast anchor in a Spanish port. Despite the limitations arising from not participating in NATO's military command structure, which obliged the Socialists to develop a special formula for contributing to Western security, Spain gave US forces on their way to the Gulf limited use of military facilities in Spanish territory and sent naval units to the region under the framework of the Western European Union (WEU) to participate in the embargo imposed by the UN Security Council.³¹

The country also engaged itself much more with the rest of the world, generally via the UN. In 1990, a Spanish general became commander of ONUCA, the UN operation organized to establish peace in Central America, the United States' "backyard." The operation led to the deployment of troops in five different countries and was crucial to ending the civil war in Nicaragua. In 1991, a Spanish general also commanded ONUSAL, the UN-led peacemaking operation in El Salvador, and Spain was an active participant in the UN mission in Guatemala (MINUGUA) and in Haiti (ONUVEH). It was during Spain's 1995 presidency of the European Union that the Transatlantic Agenda with the United States was forged.

The Socialists became a useful partner (1991 Middle East Peace Conference in Madrid, despite serious differences on the Palestine question), but also a dissenting interlocutor (Nicaragua and Cuba). The relationship was not free of friction, particularly in Latin America, where the Socialists strongly opposed the US invasion of Panama in 1989.

It was also during this period that significant numbers of middle-class youngsters went to the United States to learn English, which partly explains the increasing adoption of US habits and lifestyles in Spain. While Spanish anti-Americanism is a truism for complex historical and contemporary reasons, it is

31. Spain's role in NATO is well analysed by Fernando Rodrigo (www.nato.int/acad/conf/enlarg97/rodrigo.htm#FN4).

often overlooked that Spanish society is far more critical of US government activities than of US society.

10. From faithful ally to preferential friend, 1996-2004

The Socialists, in power for 13 years, lost the 1996 election to the centre-right Popular Party (PP) of José María Aznar. He inherited a good relationship with the United States and wasted no time in moving Spain's foreign policy closer to Washington's interests. One of his first steps was to suspend official cooperation with the Cuban government, except for humanitarian aid, and support the Miami-based opposition to Fidel Castro more actively than the Socialists. The Spanish parliament also approved the country's participation in NATO's military command structure (also backed by the Socialists as both parties supported the Alliance's expansion to the east).

Aznar made his first trip to the White House in April 1997. In July, Madrid hosted the NATO summit under Javier Solana, the Spanish secretary-general, when three former communist countries were invited to join the Alliance. Aznar was keen for Spain to "fully participate in the exercise of its responsibilities", and in 1998 he supported the bombings carried out by the United States and Britain over Iraq. The Kosovo crisis was also deteriorating and Spain agreed to a NATO request to provide four F-18 fighter jets and a Hercules refuelling plane for an eventual strike. The F-18 made 264 sorties during the three-month conflict in 1999 and three frigates carried out support operations. Spain also provided peacekeeping troops in Bosnia.

The PP won the 2000 general election with an absolute majority, strengthening Aznar's hand in many areas, notably in foreign policy. In January 2001, in the last phase of the Clinton administration, Spain and the United States signed a Joint Political Declaration, which set out the general principles and objectives of an intensified relationship. This was boosted by the Cooperation Treaty on Defence in April 2002, which gave the United States better access to the bases as the previous system of authorisation on a case-by-case basis for flying over and landing was replaced by one of blanket clearance for periods of three months (much used during the Iraq war in 2003). The 2001 declaration was a kind of updating of the 1988 agreement to take into account new international developments, such as the fall of the Berlin Wall. It included the creation of a high-level bilateral defence committee, greater cooperation in the defence industry and much closer coordination between US and Spanish security and intelligence services in the fight against terrorism (the Basque terrorist group ETA has killed more than 800 people in its 35-year fight for a

sovereign Basque state).³² Spain also secured its objective of annual summit meetings with the United States (at the level of foreign affairs representatives).

In return, Madrid granted the American request, formulated in 1998, to extend the facilities at the Rota base, including the construction of 16 hangars for Galaxy strategic transport planes and the further development of fuel installations and docks. Rota provides a strategic bridgehead for the United States in the case of military interventions in the Middle East and beyond. Protection of the Straits of Gibraltar, the most important waterway with a daily traffic of 220 large vessels, is basically guaranteed by the US forces at Rota.

When George W. Bush arrived at the White House, Aznar, decided to press for the Spanish equivalent of the United Kingdom's "special" relationship with Washington. This significant shift in Spanish foreign policy broke with the post-Franco, essentially European-focused policy, partly forged because of the overriding priority of joining the European Union, although there was also a strong Atlanticist component. Aznar had become increasingly disillusioned with the policies of the German and French governments and their predominant role in the EU. A closer relationship with Washington was also a way to escape from their tutelage and to enhance Spain's position in Europe. Aznar did not inherit the good relationship that Felipe González had established with the Helmut Kohl and found it difficult to get on with Jacques Chirac. Later, the French refusal to use its influence to resolve the crisis between Spain and Morocco after Moroccan troops seized the miniscule island of Perejil in July 2002 did nothing to endear Aznar to Chirac. Aznar took note of the fact that it was the United States that defused the crisis (Colin Powell, the US Secretary of State, telephoned the Moroccan king).

The seeds for greater links with Washington were already there, but it was the closer political and personal affinity with Bush than with Clinton (whose "third way" Aznar was not keen on), as well as Aznar's firm determination to use the US connection as a lever to try to obtain a seat for Spain in the long term at the high table of developed countries – the G8 group – that set the strengthened Atlanticism on course.

Bush "rewarded" Aznar by choosing Spain as the first stopping-off point on his first visit to Europe in June 2001 (the first time any US president had given Spain this privilege). Aznar used the opportunity to break ranks with his EU counterparts and express support for Washington's National Missile Defence System (NMD), although a schism was averted by a joint declaration also endorsing the European project to establish the Rapid Reaction Force. Spanish officials had earlier visited the Pentagon and suggested that the

32. In 1997 the US State Department apologised to the Spanish government for describing ETA in its annual report on human rights as a "separatist" rather than a "terrorist" group, and at the end of 1999 the US agreed to extradite to Spain, after a lengthy legal process, Ramón Aldasoro, an ETA activist.

participation in the anti-missile defence project could take the form of one of the new F-100 frigates being stationed off Libya to intercept missiles fired from the country.

The September 11 terrorist attacks in New York galvanised the US connection. Aznar – who narrowly survived an ETA assassination attempt in 1995 – had spoken at great length to Bush about terrorism during his visit to Spain, and his words stuck in Bush’s mind. Aznar was quick to offer immediate and unconditional support for the overthrow of the Taliban regime in Afghanistan by US and British forces. Police also began to round up Islamist militants within Spain, something acknowledged as a real contribution to the fight against international terrorism by Bush, who received Aznar in the White House in November.

As well as the shared horror of terrorism, there were other factors behind Aznar’s Atlantic commitment and move away from Europe (but not from Britain).³³ They included: a closer relationship with the United States and its closest European allies (the United Kingdom and Portugal) as a way to counterbalance the EU’s expansion to the east (as of 2004) and to offset Spain being on the periphery of Europe; security along the southern flank of the Mediterranean, the weak point in Spain’s defensive alliances; very significant Spanish investments in Latin America; the increasingly large Hispanic presence in the United States; and the potential for greater trade and investment in the United States.

Aznar, impressed by the achievements of the US and UK economies, sought a more economically open Europe with an Atlanticist stance and one linking Spain with Latin America in much the same way as Britain is linked to North America. He aspired to place the Spanish economy more within the camp of the so-called “Anglo-Saxon model” and to influence a similar change of course within the EU.³⁴ He and Tony Blair, the British prime minister, with whom he also forged a very close relationship, despite different political backgrounds, worked hard together on the Lisbon Agenda of 2000 to make the EU the “most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs” by 2010, but which has achieved very little so far. Aznar blamed the French and German governments for the lack of progress; he was also particularly angered

33. Two excellent explanations are to be found in *Spain’s Atlantic Vocation* by Emilio Lamo de Espinosa (www.realinstitutoelcano.org/analisis/307.asp) and Paul Isbell’s *Spanish-US Economic Relations: How Important Are the Aznar-Zapatero Gyration?* (www.realinstitutoelcano.org/analisis/648.asp).

34. Rodrigo Rato, the Economy Minister, said in a lecture on January 12, 2004 that Spain should abandon – and had already started to abandon – the long-standing practice of servile imitation of France and Germany. Spain’s economic success during the Aznar period – zero budget deficit, tax reductions, 4 million new jobs and euro membership – made it possible for the country to have a more independent voice. Rato went on to become managing director of the International Monetary Fund.

by those countries for flouting the EU's Growth and Stability Pact (which sets a ceiling on budget deficits at 3% of GDP). In early 2004, at the end of his administration, Aznar floated the idea of creating a US-EU free trade area (the Atlantic Economic Association) by 2015.

Spain's trade with and investment in the United States are both significantly underweight relative to both Spain's position as an exporter and net investor in the world economy and the economic relationship of most of Spain's EU partners with the United States. Spain's exports to the United States account for only 4% of the total (see Chapter 4). The US market is a difficult one to penetrate; since 1986, when Spain joined the European Union, there has been a gradual and substantial shift in trade towards European countries. The US share of Spain's imports is also very low.

While Spain's exports have steadily risen to more than 2% of the world total, their share in the US market is only around 0.5% – one-tenth the level of Germany's share, one-sixth the UK's share, one-fourth France's share, and one-fourth Italy's share. Spain is the United States' 31st largest export partner. Spanish FDI in the United States is also low and is dwarfed by that of the United Kingdom, Germany, the Netherlands and France (see Appendix 4 and Chapter 3).

The flow of US direct investment in Spain, however, is substantial (see Chapter 2). The United States was the second-largest investor in Spain in both 2004 and 2003 on the basis of ultimate investing countries.

Another influential factor behind Aznar's more Atlanticist foreign policy was that by the time Bush became president Spain was the second-largest national investor in Latin America (in 1999 Spanish companies, for the first time, invested more in the region than US ones, see Exhibit 1.3). The region generates around 30% of the total operating profit of the companies in the IBEX35 index and is approaching 50% for the largest Spanish investors. Latin America is moving away from Europe and increasingly towards the United States via Mexico's free trade agreement with North America (NAFTA) and the planned region-wide Free Trade Area of the Americas (FTAA).

Exhibit 1.3. Foreign Direct Investment in Latin America and the Caribbean, 1999-2003 (US\$ million)

	1999	2000	2001	2002	2003
Total European Union	38,079	34,654	23,978	8,432	6,217
Spain	26,648	20,064	9,877	6,985	2,281
United States	20,823	13,398	17,628	4,421	7,731
Total of all countries	62,000	48,115	43,082	12,996	15,913

Source: Inter-American Development Bank.

The desire for stronger trade and investment ties and Spain's substantial corporate interests in Latin America all converged in another factor behind the Atlanticist push: the growing importance of the Hispanic market in the United States (see Chapter 5). The size of the Hispanic community is fast approaching that of Spain's population (44 million). Spanish is also by far the first foreign language of choice in American schools and universities (there are more than 1,300 teachers from Spain in the US). The combination of the major Spanish corporate presence in Latin America and the cultural and linguistic ties with the broader Hispanic family on the US side of the border were seen as assets to be wielded in the strategy for closer ties with the United States. Aznar even offered to campaign for George W. Bush in the predominantly Hispanic states in the November 2004 elections.

In 2002 Santander, Spain's largest bank, sold a 25% stake in Serfin, Mexico's third-biggest bank, which it had bought outright in 1999, to Bank of America. Santander and Bank of America hoped the deal would enable them to cash in on the growing market for remittances by Hispanics, while providing Santander with a stepping stone into the United States. In 2004, BBVA, Spain's second-largest bank, which owns Bancomer, Mexico's largest bank, acquired three small US banks (Valley Bank of California, Laredo National Bank and South Texas National Bank).

The Aznar government believed that a deeper political relationship would aid the economic relationship in both directions: Spanish business interests, at the government and private sector levels, would benefit from growing policy collaboration and US companies would be more attracted to Spain.³⁵ The good relationship between Bush and Aznar led to the lifting in October 2002 of the ban on imports of Spanish clementines imposed on December 5, 2001 by the US Department of Agriculture after fruit fly larvae had been found in them. Aznar also used his personal influence in the White House to win favourable treatment of Argentina's 2001 debt crisis by the International Monetary Fund (IMF). It was feared that too harsh a treatment would have made life even more uncomfortable for the Spanish banks and companies that had invested heavily in Argentina. Until the crisis, Argentina was the main recipient of Spanish direct investment in Latin America. The "unorthodox" deal with the IMF was fiercely criticised by *The Economist* and *The Wall Street Journal*.

The closer ties with Washington were very much consolidated in the run-up to the March 2003 invasion of Iraq, when Spain, by then a non-permanent member of the UN Security Council (which raised the country's profile), emerged as the US's most solid ally along with the United Kingdom. Aznar

35. See "Spain Seeks to Turn US Allies into Tourists", by Matthew Garrahan (*Financial Times*, December 2, 2003).

was the main instigator of the article published in the *Wall Street Journal* (January 29, 2003), signed by the prime ministers of Spain, Portugal, Italy, the United Kingdom, Poland, Hungary, Denmark and the Czech Republic, which said that “the transatlantic relation must not fall victim to the constant attempts of the Iraqi regime to threaten world security.” Aznar unsuccessfully tried to persuade Mexico and Chile, also non-permanent members of the Security Council, to back a UN resolution authorising the use of force in Iraq.³⁶ At the height of the government’s cooperation with the US, a Spanish marketing campaign was launched carrying the tagline: “Your friend in Europe”. More American tourists visited Spain that year.

Spain joined the so-called “coalition of the willing”, symbolized by the photograph of Bush, Blair and Aznar at their summit in the Azores.³⁷ “Spain can no longer be in the same corner as the countries which do not count, do not serve and do not decide,” said Aznar shortly before the invasion of Iraq. “In order to place our country among the most important ones in the world when the world is threatened, Spain must assume its responsibilities and do so with courage, determination and leadership.” Spain, however, did not contribute combat troops to the invading force, although Aznar did seriously consider sending them. But this would have been too much even for his own party.

The alignment with Washington over Iraq was perceived by many in the heart of Europe, particularly Germany and France, as obstructionist, if not downright confrontational. It also went against the wishes of the overwhelming majority of the Spanish population (around 90% expressed opposition to the war with Iraq in opinion polls, the highest level in Europe). Aznar, however, stuck to his guns and sent 1,300 peacekeeping troops to Iraq.³⁸ In return, to some extent, for his support, Washington added Batasuna, the political wing of Basque armed separatist group ETA that had been declared illegal, to its list of terrorist groups, and shortly before stepping down as prime minister (having vowed not to run for a third term), Aznar was accorded the honour of addressing a joint session of Congress. Awarding him the Congressional Gold Medal, the highest award bestowed by the US government which Tony Blair

36. Despite Chile refusing to lend its support, Aznar was able to intercede personally with Bush and get him to agree to sign the free trade accord with Chile in September 2003. The agreement ran the risk of being put back because Chile appeared to be “unfriendly”.

37. In his book, *Retratos y perfiles* (Planeta, 2005, pp. 265-74), Aznar said, “Spain was at the Azores because it could not participate in the Normandy landing, which is where we should have been.” Spain was officially neutral in the Second World War, but Franco aided Hitler and Mussolini.

38. A dissenting voice, though not in public, was Rodrigo Rato, the deputy prime minister for economic affairs. According to Federico Trillo, the defence minister at the time, Rato firmly expressed his opposition to Spain’s military involvement at a cabinet meeting shortly before the invasion of Iraq. In its place, he suggested humanitarian aid. See *Memoria de entreguerras. Mis años en el Ministerio de Defensa* by Federico Trillo (Planeta, 2005).

had received in 2003, was in the pipeline but it did not come through in time for his address and was not subsequently pursued.

On March 11, 2004, and three days before Spaniards went to the polls in a general election, terrorists linked to Al-Qaeda took revenge on the government's support of the war in Iraq and placed bombs on trains in Madrid, killing 191 people and injuring more than 1,500. The Socialists won the elections on a large voter turnout (77%, not far from the historic high of 80% in 1982, when the Socialists first came to power). No sooner were they in office than the prime minister, José Luis Rodríguez Zapatero, fulfilled an electoral pledge and abruptly withdrew Spain's troops from Iraq, overturning the previous government's carefully nurtured relationship with the United States and producing a major rift with Washington.³⁹ The *New York Times* carried the story on its front page with a headline across six columns, making it the most prominently displayed piece of news out of Spain since the Civil War of 1936-39. Zapatero's self-proclaimed foreign policy priority was a "return to the heart of Europe", which was quickly sealed by high-profile meetings with Jacques Chirac and Gerhard Schröder.

11. A new phase in US-Spain relations

A third term in office by the Popular Party (PP) would have deepened the burgeoning relationship with the United States, but the Socialists' victory nipped it in the bud before it had time to take root and fully bloom. The Socialists sought to readdress the balance, as they believed the previous government departed from the bipartisan consensus in foreign policy and unbalanced relations in favour of one element of the equation (the US) to the detriment of the other (the EU).⁴⁰

There were many different factors behind the Socialists' victory, and it is not the purpose of this book to go into them. One of the reasons, however, is pertinent: the massive opposition by Spaniards to the US- and UK-led invasion of Iraq, aggravated by the lack of a UN mandate. Aznar ignored public opinion and he also did not submit the sending of peacekeeping troops to Iraq to parliament. His alignment with US foreign policy, particularly over Iraq, never enjoyed overwhelming public support, which a change of that

39. A former US ambassador to Spain advised a Socialist minister to be, shortly after the election result, against withdrawing the troops too hastily as it would infuriate President Bush. He was told that the decision to pull out as quickly as possible had already been taken.

40. José María Aznar, the former prime minister, as one would expect, took a diametrically opposed view. In an article in the *Wall Street Journal* ("Appeasement Never Works", 26 April 2004) he said the pullout of troops "worsens our foreign relations. It alienates us from our partners and allies and does not contribute to the foreign policy consensus promised to us by the new government."

magnitude needed in a “pacifist” society like Spain’s. One reason for Spain’s pacifism is the trauma of its 1936-39 Civil War, which is embedded in the collective memory.

The gulf between American and Spanish public opinion was underscored by the German Marshall Fund’s 2004 poll of the United States and eight European countries. To the question “Under some conditions, war is necessary to obtain justice” 82% of Americans responded ‘yes’, while only 25% of Spaniards (the lowest number of all the countries polled) answered in the affirmative. The question did not refer to any particular war, such as the Iraq War or the Vietnam War, but to war in general. “Setting aside who is right or wrong, we are facing an enormous gap in perspective which transcends individual politicians and which we have to deal with,” said Robert Kagan, a columnist and senior associate at the Carnegie Endowment for International Peace.⁴¹ A majority (74%) supported the government’s decision to withdraw Spanish troops from Iraq and 66% supported deploying the troops in Iraq if the United Nations approved a multinational force to assist with security and reconstruction. Support, however, fell if such a multinational force were to be under US command.

Zapatero’s withdrawal of troops from Iraq caused a major stand-off with the Bush administration, which relegated Spain to the status of an “unreliable ally” (the word “traitor” was used in some quarters). Many American commentators and some legislators, including Dennis Hastert, the most senior Republican in the US Congress, as well as Richard Myers, the Joint Chiefs of Staff Chairman, directly or indirectly accused the Spanish people of appeasing terrorists on the grounds that they had given into them by throwing out a party whose leader had stood shoulder to shoulder with the Bush administration in its fight against global terrorism. This was a very simplistic interpretation of what happened in Spain between the bombs and the elections and deeply offended many Spaniards who are no strangers to terrorism.⁴² The Socialists became the whipping boy for the White House’s frustrations with “Old Europe”, as the US Defence Secretary Donald Rumsfeld once labelled Germany and France (who also opposed the war with Iraq). It was an easy target, as the cost of the friction with Spain, unlike with France or Germany, was zero or very little. What particularly annoyed the White House was not so much the pull-out of troops but the sudden way in which it was done and

41. See www.realinstitutoelcano.org/publicaciones/libros/seminario_usa.pdf.

42. See the much more balanced testimony of Robin Niblett, executive vice-president and senior fellow, Europe Programme, Centre for Strategic & International Studies, before the Committee on Foreign Relations, Subcommittee on European Affairs, on March 31, 2004 (<http://foreign.senate.gov/testimony/2004/NiblettTestimony040331.pdf>).

without negotiating a gradual withdrawal.⁴³ Zapatero also angered the administration by privately or publicly urging other countries to withdraw their peacekeeping troops. Spain slipped from 8th to 9th position in 2004 in the Harris Poll of the United States' 25 closest allies (12th in 2002). The sharp rise in 2003 was due to the previous government's support for the invasion of Iraq.

In a pointed snub to Zapatero, Aznar, who stepped down as PP leader before the election, was the first foreign dignitary invited to the White House after the US election, while Bush never returned Zapatero's congratulatory call. Meanwhile, Rodrigo Rato, the economy supremo under Aznar, had moved to Washington as the managing director of the International Monetary Fund (IMF), a job which traditionally goes to a European but which, nevertheless, needs the support of the US.⁴⁴ Rato's appointment was very much seen as a recognition of the sound economic management under Aznar, and a "prize" similar to that of the Socialist Javier Solana winning US support in 1995 to be NATO's Secretary General. Javier Rupérez, Aznar's last ambassador to Washington, stayed in the United States as the first executive director of the newly created UN Counter Terrorism Executive Directorate (CTED). The importance that the Socialists attached to patching up relations with Washington and forging a new *modus vivendi* was underscored by sending Carlos Westendorp, a former foreign minister and the mastermind of the European Union's Transatlantic Agenda in 1995, as ambassador to the United States in 2004.

The rhetoric between the two sides was initially hostile. George Argyros, the outgoing US ambassador in Madrid, boycotted the official commemorations on October 12, 2004 (Columbus Day) because at the 2003 ceremony Zapatero (before becoming prime minister) had remained seated when the American flag passed by. José Bono, the defence minister, inflamed passions when he said that Spain was "no longer subordinated" or "kneeling" before the United States. Such playing to the gallery did nothing to endear the government to the White House.

The Socialists unwisely made no secret of their hope for a victory by John Kerry in the November 2004 presidential election, although Kerry had also criticised the withdrawal of troops from Iraq. It was by no means certain that his foreign policy would have been much more to their liking. Bush won a second term, however, and the Socialists had to begin to mend fences.

43. The full scope of Spain's contribution to Western security through peace-keeping operations over the past 25 years is not generally appreciated. Spain has participated in 60 of them and has sent more than 50,000 troops abroad. At the time of writing this book, there were troops in Bosnia, Afghanistan, Haiti, Indonesia and Kosovo. According to a Pentagon report to the US Congress, Spain is the sixth country in supplying naval forces abroad and the third in infantry.

44. In 2000, the US vetoed Europe's nomination of German Deputy Finance Minister Caio Koch-Weser for the IMF's top job.

The Spanish decision in February 2005 to move half of its 540 troops from the relative calm of Kabul to the more conflictive western part of Afghanistan was positively viewed by Washington as it enabled NATO to carry out the second phase of its stalled stabilisation mission. Spain took charge of a provincial reconstruction team (PRT) in Qala-i-Naw, the capital of the province of Badghis near the border with Turkmenistan. Spain's presence in this phase was the largest among NATO countries. The withdrawal of troops from Iraq and the more active presence in Afghanistan were the two sides of the Socialists' policy towards terrorism. On the one hand, the government regards the war in Iraq as counterproductive in the fight against terrorism and, on the other, it has no qualms about being actively involved in Afghanistan because it was a training base for terrorist networks, and there was a wide consensus in the international community, unlike over Iraq, on the need for firm action.⁴⁵ Spain has more than 1,000 peacekeeping troops in Afghanistan, 17 of whom were killed in a helicopter accident in 2005. While Spain's peacekeeping troops in Iraq suffered 24 attacks, some of them very serious, before they were withdrawn. In Afghanistan, under a UN mandate, there has not been one.

The Socialists, however, are not washing their hands of Iraq: Spain was one of the main donors for the January 2005 elections, whose results it welcomed, and the government is prepared to help train Iraqi judges and police officers in Spain.

The Socialists were seeking the kind of flexible relationship with Washington that Felipe González, the former prime minister, had between 1983 and 1996. They do not want to be hugged by the White House. When he came to power, González also had to overcome an initial period of friction (with the Reagan administration) as he fulfilled his campaign pledge of putting Spain's continued membership of NATO to a referendum. It was touch and go whether the 'yes' vote would win the day, but it did and González then went on to enjoy a good relationship with the Reagan, Bush (Sr.) and Clinton administrations and was able to disagree without falling out, for example, over US policy towards Central America.

The Bush (George W.) administration, however, is much more hard-nosed than previous Republican governments. The inner circle of President Bush is very much a club, and you are either a member of it, as was the previous Spanish government, or not. Spain was thus out in the cold for a while, symbolised by the reluctance of George W. Bush to receive Zapatero in the White House.

45. See "Madrid Seeks a National Consensus on Foreign Policy", by Miguel Ángel Moratinos (*European Affairs*, autumn 2004).

Apart from Iraq, the other differences were over Cuba and Venezuela, two areas where the previous government was in full agreement with US policy. The Socialists successfully spearheaded efforts for the EU to restore normal diplomatic relations with Cuba in January 2005, ratified in June despite the lack of progress in human rights.⁴⁶ The EU reduced high-level governmental visits and participation in cultural events in Cuba in 2003 after the summary execution by firing squad of three people who had hijacked a ferry in an attempt to escape the country and the roundup of 75 dissidents. EU countries also decided to invite dissidents to national holiday celebrations at their embassies in Havana as a sign of support for the regime's opponents. This produced the so-called "cocktail wars". Castro retaliated by freezing out embassies from all official contacts. EU ambassadors in Havana became known as "Findus ambassadors", after the frozen food producer, as they had little to do. The Spanish government came to the conclusion that the previous policy was getting nowhere and, meanwhile, the post-Castro period was inevitably drawing nearer. Spain contends that Cuba's future will be decided within the country and not in Miami, the home of most exiles, or in Washington.

As regards Venezuela, the Spanish government's decision to sell ten C-295 transport planes, four coastal patrol corvettes and four smaller coastguard patrol boats to the government of Hugo Chávez was fiercely criticised by Donald Rumsfeld. Washington was deeply concerned about Chávez's arms build-up, which included the purchase of weapons and equipment from Russia and Brazil. Strictly speaking, Spain's sale was not of arms and was defended by José Luis Rodríguez Zapatero, the prime minister, on the grounds that the purpose of the deal was to fight terrorism. Furthermore, US criticism of the deal looked rather hollow when José Bono, the defence minister, revealed to the Spanish parliament that the previous government had sold guns, grenades and anti-riot gear to Chávez between 2000 and 2003 and Washington raised no concerns.

Nevertheless, despite the differences, the fundamentals of the relationship between Spain and the United States are solid. For example, the flow of exchanges between intelligence services and law enforcement agencies remains strong as a result of both countries suffering major terrorist attacks. New extradition and justice cooperation agreements were signed during 2005.

46. Spain's relations with Cuba have long been a sore point with US administrations. Even the staunchly anti-communist General Franco maintained full diplomatic relations with the country and traded with it. The Lyndon Johnson administration (1963-69) was particularly critical of Spain's purchases of Cuban sugar. In May 2005, Castro's brother Raúl, the regime's "number two", was warmly received in Galicia, where his parents were born, by Manuel Fraga, at that time the region's premier and a former information and tourism minister under Franco.

There was a flurry of visits by the foreign, interior, defence, justice, education and health ministries during the first half of the year.

One of the premises of the previous government's closer alignment with US foreign policy was that a stronger political relationship would eventually spur the trade and investment relationship. Given the Socialists profound disagreement with US policy in Iraq, this begs the question of whether their stance will affect US-Spanish trade and investment ties. The first potential avenue along which the economic relationship might deteriorate is the area of public procurement and the military sectors, but there were no signs of this happening. Some Spanish companies, notably Cintra, were awarded very large public works projects in the United States during the Socialists' first year in office (see Chapter 3), while the deal for the Spanish branch of EADS-CASA to sell planes to the US Coast Guard, signed in February 2004, one month before the electoral upset in Spain, has proceeded apace.

CHAPTER 2

THE US PLAYERS IN SPAIN

The United States has been a significant investor in Spain since the 1960s (see Chapter 1). Since Spain's accession to the European Union in 1986, however, the relative weight of US investment in total inward investment has declined in favour of European countries. Net direct investment by the United States in Spain, on the basis of the immediate and not the ultimate investing country, amounted to only 3.73 billion between 1993 and 2004 – 7.6% of the 49.09 billion total – compared with 20.92 billion by the United Kingdom and 5.71 billion by France (see Appendix 3).¹ During that period, US net investment represented between 2% and 21% of total annual net investment flows. There are more than 500 US inward investor companies in Spain, compared with over 13,000 in the United Kingdom.

Most US companies in Spain are in the industrial sector, especially auto parts, pharmaceuticals and chemical products, and industrial equipment and supplies. However, in recent years their presence in the service sector has been increasing steadily, mainly in information technology and consulting services. US companies account for more than one-third of total production of new passenger cars, around 15% of auto components and close to 40% of the sales of pharmaceuticals. Some of the companies are among the largest in the country (see Exhibit 2.1). They include Opel (part of General Motors) and Ford in the motor industry, IBM and Hewlett-Packard (+ Compaq) in information technology, General Electric (plastics), Dow Chemical and DuPont in chemicals, Alcoa in metals and Procter & Gamble in consumer products. There are around 600 US-owned companies or subsidiaries in Spain.²

1. These figures exclude investments in special-purpose entities (SPEs), whose only function or activity is to hold foreign equity. They are regulated by specific legislation and give international companies tax advantages if certain conditions are met. Net US investment in Spain between 1993 and 2004 including SPEs was 49.17 billion, 13 times higher than the figure for “pure” direct investment. The value added of SPEs to the Spanish economy is close to zero and typically they involve large sums.

2. Appendix 1 lists many of these companies.

Exhibit 2.1. Largest US Companies in Spain*

Company	Sector	Employees	Revenues (€ million)
Opel España	Automotive	8,656	6,363
Ford España	Automotive	7,558	5,200
Hewlett-Packard	Information technology	2,116	1,260
Dow Chemical Ibérica	Chemicals	564	1,075
IBM España	Information technology	2,056	1,020
Atlantic Copper	Capital goods	806	808
Pfizer	Pharmaceuticals	1,368	755
Philip Morris Spain	Food and tobacco	391	711
Refrescos Envasados (Coca-Cola)	Beverages	210	687
Lilly	Pharmaceuticals	1,300	611
Procter & Gamble España	Consumer products	348	533
Johnson Controls	Automotive	1,381	500
Zardoya Otis	Capital goods	3,736	502
Eso Española	Petroleum	194	473
Lear (MAI)	Automotive	3,347	414
Ingram Micro	Information technology	218	406
Alcoa Inespal	Metals	3,000	367
Delphi	Automotive	1,380	197
Lucent Technologies	Information technology	456	135
Sara Lee (Southern Europe)	Consumer goods	234	122
General Electric	Plastics, medical systems, finance	979	121
PBG Holding (Pepsi Cola)	Beverages	223	96

(*) 2003 figures.

Source: Fomento de la Producción.

As a result of a new way of drawing up Spain's statistics, the real size of US direct investment flows is much clearer. The figures for the United States before 2002 understated the true dimension of its investment in Spain because the figures were provided on the basis of the immediate investing countries and not the ultimate investing countries. This particularly affected US companies, as they often invest in Spain via "transit" countries with favourable tax treaties, such as Luxembourg, the Netherlands and Gibraltar, or through other European subsidiaries located in the European Union, typically the United Kingdom or Germany. The Foreign Investments Registry now gives the investment structure by both immediate and ultimate investing companies. The differences between the two sets of figures can be quite significant (see Exhibits 2.2 and 2.3). Gross US investment on the basis of immediate countries amounted to 1,475 million between 2002 and 2004, but the real figure was 4,099 million – in other words, 2,624 million (the difference between the two figures) came via "transit" countries.

Exhibit 2.2. Gross Foreign Direct Investment in Spain by Immediate Investing Countries (€ millions and % of the total)

	2002	%	2003	%	2004	%
EU	10,371	90.7	8,640	87.1	9,563	85.9
US	228	1.9	611	6.2	636	5.7
Latin America	176	1.5	141	1.4	442	4.0
Other	653	5.9	523	5.3	488	4.4
Total	11,428	100.0	9,915	100.0	11,129	100.0

Source: Foreign Investments Registry.

Exhibit 2.3. Gross Foreign Direct Investment in Spain by Ultimate Investing Countries (€ millions and % of the total)

	2002	%	2003	%	2004	%
EU	8,344	73.0	7,288	73.5	6,221	55.9
US	732	6.4	1,471	14.8	1,896	17.0
Latin America	364	3.2	306	3.0	2,019	18.1
Other	1,988	17.4	850	8.7	993	9.0
Total	11,428	100.0	9,915	100.0	11,129	100.0

Source: Foreign Investments Registry.

The United States was the second-largest investor in Spain in both 2004 and 2003 on the basis of ultimate investing countries (see Exhibit 2.4).

Exhibit 2.4 Gross Foreign Direct Investment in Spain – Top 15 Ultimate Investing Countries*

Country	2004			2003		
	Amount (€ mn)	% of Gross Total	Ranking	Amount (€ mn)	% of Gross Total	Ranking
United Kingdom	2,013	18.09	1	2,413	24.33	1
United States	1,896	17.04	2	1,471	14.84	2
Mexico	1,758	15.79	3	191	1.92	11
France	1,243	11.17	4	704	7.10	6
Portugal	1,054	9.48	5	139	1.40	12
Netherlands	854	7.67	6	729	7.35	5
Spain	365	3.28	7	267	2.69	9
Germany	364	3.27	8	755	7.61	4
Italy	q259	2.33	9	1,287	12.98	3
Switzerland	149	1.34	10	191	1.93	10
Canada	145	1.30	11	57	0.57	14
Uruguay	123	1.10	12	13	0.13	15
Belgium	108	0.97	13	106	1.06	13
Sweden	100	0.90	14	433	4.36	8
Luxembourg	81	0.73	15	636	6.42	7

(*) Excluding investment in special-purpose entities.

Source: Foreign Investments Registry.

US direct investment in Spain has averaged around 2% of the US's total annual investment abroad since 1999 (see Appendix 5). In terms of annual flows, Spain has ranked between fourth and eighth in the European Union, always behind the United Kingdom and the Netherlands, but usually ahead of France. At the world level, Spain ranks lower, generally between 14th and 20th (ahead of China every year except 2001). On a historical cost basis, US investment in Spain stood at \$45.2 billion in 2004, well ahead of US investment in Italy but much lower than in Ireland according to the US Bureau of Economic analysis (see Exhibit 2.5). Of the \$45.2 billion, \$11.3 billion was in manufacturing (\$3.6 billion in chemicals), \$22.7 billion in other industries and \$6.4 billion in depository institutions, finance and insurance. The stock of US direct investment in Spain at the end of 2003 (latest year available) amounted to 19.8 billion, 16.7% of the total and the third highest after the United Kingdom and France, according to Spain's Foreign Investments Registry (see Exhibit 2.6).

Exhibit 2.5. US Direct Investment Abroad on a Historical Cost Basis (US\$ millions)*

	1994	2004
Total	480,667	1,526,306
Europe	294,035	1,078,287
France	32,950	148,242
Germany	39,630	163,372
Ireland	2,974	21,153
Italy	2,904	7,421
Spain	2,430	5,669
UK	98,732	251,562
Asia and Pacific	113,048	218,583
Japan	98,513	176,906
Rest	73,584	229,436

(*) Net assets at market value.

Source: US Bureau of Economic Analysis.

Exhibit 2.6 Total Stock of Foreign Direct Investment in Spain by Ultimate Investing Country

Country	Shareholders' Equity*		Employment	
	Amount (€ mn)	% of Total	Number of People	% of Total
OECD countries	104,952	88.77	1,136,299	93.88
EU countries	76,381	64.60	812,504	67.13
Belgium	1,459	1.23	27,514	2.27
France	21,414	18.11	269,929	24.53
Germany	13,621	11.52	176,134	14.55
Italy	5,773	4.88	42,722	3.53
Luxembourg	2,381	2.01	14,085	1.16
Netherlands	3,737	3.16	85,367	7.05
Portugal	2,138	1.81	9,992	0.83
Sweden	2,419	2.05	35,780	2.96
United Kingdom	21,760	8.40	100,699	8.32
Non-EU countries	4,761	4.03	65,805	5.44
Switzerland	4,499	3.80	62,806	5.19
Non-European OECD countries	23,809	20.14	257,989	21.31
Japan	3,134	2.65	31,383	2.59
United States	19,832	16.77	220,994	18.26
Tax havens	1,328	1.12	5,322	0.44
Latin America	3,761	3.18	7,890	0.65
Mexico	3,311	2.80	5,237	0.43
Spain	7,268	6.15	53,596	4.43
Other countries	925	0.78	7,287	0.60
Total	118,233	100.00	1,210,393	100.00

(*) Based on the weighted equity of companies with foreign direct investment.

Note: These figures exclude direct investment in special-purpose entities. They cover investments in branches and equity stakes in unlisted companies and in listed companies if the stake is equal to or exceeds 10%.

Source: Foreign Investments Registry.

The value added of majority-owned US affiliates in Spain represented an average of 1.7% of Spanish GDP annually between 1994 and 2002 (latest data available).³ This is roughly the same as Italy but well below other large EU economies (see Exhibit 2.7). The share of value added remained virtually unchanged between 1994 and 2002, while in most other countries it increased, most spectacularly in Ireland (from 12.1% to 19.4%) as a result of the huge impact of massive US investment on a tiny economy and, in particular, the increased production of pharmaceuticals. The total sales of non-bank US

3. This and other information based on figures from the US Bureau of Economic Analysis comes from *The Impact of US Foreign Direct Investment in Spain*, by Gayle Allard and Rafael Pampillón (Elcano Royal Institute, WP 19/2005, see www.realinstitutoelcano.org/documentos/192.asp).

affiliates in Spain amounted to \$56.8 billion in 2002, compared with \$242.2 billion in Germany, \$139.4 billion in France, \$87.3 billion in Italy and \$86.4 billion in Ireland.

Exhibit 2.7. Value Added of Majority-Owned Foreign Affiliates as a Percentage of GDP of Selected Host Countries

	1994	1999	2000	2001	2002
Ireland	12.1	15.9	17.2	16.6	19.4
Canada	8.8	10.4	10.4	10.3	10.0
United Kingdom	6.1	7.1	7.8	7.1	6.7
Mexico	2.3	3.7	3.4	3.3	3.5
Germany	2.7	2.9	3.2	3.1	3.1
France	2.4	2.6	2.8	2.6	2.5
Portugal	2.5	2.2	3.1	2.9	2.3
Italy	1.8	1.9	1.9	1.8	1.8
Spain	1.7	1.8	1.9	1.8	1.6
Japan	0.5	0.7	0.8	0.9	0.9
China	0.1	0.4	0.5	0.5	0.6

Source: US Bureau of Economic Analysis.

If the value added of all US companies in Spain's industrial sector is taken as a percentage of the country's industrial sector, the figure is much more significant: between 1999 and 2002 US companies represented an average of 8.2% of Spanish value added. Industry accounts for 68% of total American gross added value in Spain (see Exhibit 2.8).

Exhibit 2.8. Gross Added Value (GAV) of US Companies in Spain, by Sector*

Sector	% of Total American GAV
Total industry	67.7
Chemicals	18.1
Transport equipment	14.7
Primary industry and metal manufacture	7.1
Food and drink	4.6
Computers and electronic products	3.9
Machinery	3.7
Electrical equipment and components	2.7
Wholesale commerce	15.1
Technical, professional and scientific services	3.9
Finance (except deposit institutions) and insurance	2.6
Information	2.2
Mining	0.2
Energy and water	0.3
Other	8.0

(*) 2002 figures.

Source: US Bureau of Economic Analysis.

US companies account for a slightly smaller proportion of all Spanish employment (an average of 1.15% between 1983 and 2002), indicating that workers at these companies are more productive than Spanish workers overall. This proportion rises substantially (to 3.9%) if employment in US-owned industrial companies is taken as a percentage of all Spanish industrial employment. On average, in the 1996-2002 period workers at US companies were 15% more productive than workers in Spain overall, as measured by the aggregate value per employee. Two of the factors at play here are the higher levels of R&D and the greater importance attached to professional training. Spain's overall productivity has been ailing over the past few years and is eroding the country's competitiveness. The sector employing the most people working for majority-owned non-bank US affiliates is transportation equipment (34,200 out of a total of 182,600 in 2002).

In exports and R&D, the role of US companies is also greater than that corresponding to their weight in the Spanish economy. The dissemination of technology throughout the Spanish industrial structure has been a key contribution from companies of US origin. This can be seen at the macroeconomic level in the figures on R&D spending by American companies compared to average spending in Spain as a whole, and in the figures on the employment of research staff. US companies accounted for an average of 4.8% of all R&D spending in Spain between 1989 and 2002, which was four times more than these companies contributed to the country's total production. However, if the spending on R&D by US companies is compared with total private sector spending on R&D in Spain, the figure was much higher – 9.3% – between 1989 and 2002. About 40% of this total comes from the chemicals/pharmaceuticals sector. The figures on the number of people employed by US companies in research activities tell a similar story. US firms account for less than 2% of all R&D workers in Spain, but close to 5% of all R&D employment in the Spanish private sector.

US companies have played a significant role in the internationalization of the Spanish economy thanks to their greater experience and more sophisticated marketing chains and global distribution. Opel (General Motors) and Ford are regularly among the country's top ten exporters. Between 1982 and 2002, US firms operating in Spain accounted for an average of 9% of total exports of goods (see Exhibit 2.9). The sector that exports the most is transportation equipment, followed by chemicals (see Exhibit 2.10).

Exhibit 2.9. Exports of US Companies in Spain (€ millions), 1983-2002

Year	Amount	Year	Amount	Year	Amount	Year	Amount
1983	2,277	1988	4,289	1993	6,031	1998	11,034
1984	3,216	1989	4,556	1994	8,028	1999	11,730
1985	3,767	1990	5,284	1995	8,805	2000	13,100
1986	3,545	1991	6,679	1996	9,904	2001	14,532
1987	3,488	1992	6,506	1997	10,408	2002	14,524

Source: US Bureau of Economic Analysis.

Exhibit 2.10. Exports of US Companies, by Sector (€ millions)

Sector	1999	2002
Total industry	10,683	13,036
Transportation equipment	6,572	7,275
Chemicals	1,023	1,968
Food and drink	86	88
Computers and electronic products	906	400
Electrical equipment and components	504	526
Wholesale commerce	74	1,103
Other	49	129
Total exports	11,730	14,524

Source: US Bureau of Economic Analysis.

Some US companies in Spain

But for the arrival of US companies, and multinationals in general, Spain's automotive industry would never have become the third-largest in Europe and the seventh worldwide (see Exhibit 2.11). The industry has been entirely in the hands of multinationals since Seat was sold to Germany's Volkswagen in 1986.

Ford's first car produced in Spain, the *Fiesta*, came off the assembly line at Almussafes near Valencia on October 18, 1976 (Ford first came to Spain in 1907, when it established a dealership that sold five cars that year; in 1920 it set up a plant in Cadiz that assembled the Model T Ford). The Almussafes plant was the first in Spain to produce just one model, enabling Ford to achieve considerable economies of scale. It was a far-sighted investment to make Spain a springboard for exporting, as it was made in the final year of the Franco regime when the business climate was uncertain and the country was focused on achieving a peaceful transition to democracy and entering the European Union (which happened in 1986). Ford's exports of cars rose from 4,526 units in 1976 (26% of total production) to 386,503 in 2004 (86%).

Ford chose to manufacture its new *KA* model in the 1990s at its Almussafes plant rather than at its facilities in Cologne, Germany, and Dagenham, United Kingdom. Albert Caspers, chairman of Ford Europe, said at the time that the plant in Spain was chosen because it has “one of the highest productivity levels in the world and a quality standard on a par with other European factories.” In 2003 Spain began to assemble the *Mazda2*, the first car to be produced in Europe by Ford’s 33%-owned Japanese affiliate Mazda, and Almussafes became the second factory in 2005, after Ford’s Saarluis factory in Germany, to manufacture the new *Focus* car.

Ford and General Motors (which arrived in Spain in 1982) produced 871,104 passenger cars between them in 2004 out of a total of 2.4 million, and their exports accounted for 39% of the total of 1.96 million.⁴ The presence of these and other auto companies led component companies like Arvin Meritor, Dana Corporation, Johnson Controls and Tenneco Automotive to set up affiliates in Spain too and spurred the creation of Spanish component companies, such as Grupo Antolín-Irausa, the world’s largest manufacturer of ceiling panels for cars and a leading producer of seats, door locks, and electrical devices for windows.⁵ It started in the 1960s near Renault’s assembly lines and in the 1970s opened facilities near Ford’s plant.

Exhibit 2.11. US Automotive and Component Companies in Spain

ArvinMeritor Inc.	Goodyear Tire & Rubber Co.
Collins & Aikman Corp.	Harley-Davidson Inc.
Dana Corp.	Hayes Lemmerz Intl. Inc.
Datcom Instrument Co.	Honeywell International Inc.
Delphi Corp.	Johnson Controls Inc.
Eaton Corp.	Lear Corporation
Federal-Mogul Corp.	Mark IV Industries Inc.
Findlay Industries Inc.	Metaldyne Corporation
Ford Motor Co.	Tenneco Automotive
Fruehauf Corp.	TRW Automotive Holdings Corp.
General Electric Company	Visteon Corp.
General Motors Company	Walbro Corp.

Source: AmCham.

Most of the American machinery and supplies companies in Spain are importers and distributors (see Exhibit 2.12). Among the manufacturers are Duo-Fast (staples and nails), Flowerserve (fluid pumps), General Cable (copper, aluminium, fibre optic wire and cable products), Helgeson

4. DaimlerChrysler produced 93,000 vehicles in 2004, but it is excluded from this calculation because it is not majority US-owned.

5. See pp. 173-176 of *The Limits of Convergence*, by Mauro Guillén (Princeton University Press, 2001).

(testing equipment) and Honeywell (control systems for automation of industrial processes).

Exhibit 2.12. US Industrial Machinery and Supplies Companies in Spain

Actuant Corporation	Minnesota Mining Manufacturing St. Paul (3M)
APW Ltd.	MTW Magnaflux
Black & Decker Corp.	Nordson Corp.
Branson Ultrasonics Corp.	Oilgear Co.
Deublin Company	Parker Hannifin Corp.
Dresser Industries	Perkin Elmer Inc.
Duo-Fast Corporation	Praxair Inc.
Erico Products Inc.	Precision Valve Corp.
General Electric Company	Ramsey Technology Inc.
General Cable	Rockwell Automation
Helgeson Scientific Services	Standex Intl. Corp.
Honeywell International Inc.	Timken Company
Idex Corporation	Ucar International Inc.
Instron Corp.	Varian Inc.
Lincoln Electric Company Inc.	Welbilt Corp.

Source: AmCham.

In the chemicals sector, most of the US players are manufacturers and they include Dow Chemical and DuPont (see Exhibit 2.13). Dow Chemical's Tarragona plant in Catalonia is its European production centre and hence an important link in its global supply chain. A new 200 million plant is being built in Tarragona to produce special polyethylene plastics and is expected to come on stream in 2006. Exports of chemicals by US companies in Spain almost doubled between 1999 and 2002 (latest year available) to 1,968 million. No other export by US companies in Spain has grown as much. Dupont has several plants in Asturias (northern Spain), making the region one of the company's most important production centres worldwide.

Exhibit 2.13. US Chemical Firms and Allied Products in Spain

Abbott Laboratories	Henkel Loctite Corp.
Acheson Colloids Company	Hercules Inc.
Air Liquide America Corp.	Houghton International Inc.
Air Products & Chemicals Inc.	Huntsman International
Bio-Rad Laboratories	International Flavors & Fragrances Inc.
Buckman Laboratories Inc.	ISP-Int. Specialty Products
Dow Corning Corporation	Mac Dermid Inc.
Dow Chemical Company	NCH Corp.
Du Pont de Nemours E.I. % Co. Inc.	Noveon Inc.
Eastman Chemical Company	PPG Industries Inc.
Enthome-OMI Inc.	Quaker Chemical Corp.
Ferro Corporation	Rohm and Haas Co.
FMC Corp.	Safety-Kleen Corp.
WR Grace & Co.	Wheellabrador Technologies Inc.
Griffith Laboratories Inc.	World Minerals Inc.
H.B. Fuller Co.	

Source: AmCham.

US companies are also strong in pharmaceuticals. Eight companies have a total market share of close to 30% (see Exhibit 2.14). Several of these companies, such as Pfizer and Bristol-Myers, do not just distribute, they manufacture products in Spain. Lilly chose its plant in Alcobendas, Madrid, for the production of a new molecule, duloxetine (used to treat depression and urinary incontinence).

Exhibit 2.14. Market Share of US Pharmaceutical Companies in Spain*

Company	Market Share (%)
Pfizer	9.6
Merck	4.0
Johnson & Johnson	3.2
Lilly	3.2
Bristol-Myers	2.6
Abbott	1.9
Wyeth	1.5
Schering Plough	1.0

(*) Based on sales at June 2004.

Source: Company reports.

In software, hardware and services, US companies account for close to 40% of total sales (see Exhibit 2.15). Many of the big names are in Spain, including IBM (which first came to the country in 1926 and stopped manufacturing in Spain in 1995), Hewlett-Packard and Microsoft. Spain's importance for IBM increased in 2005, when it decided to restructure its operations and replace Paris with two new coordination centres for Europe, one in Madrid and the other in Zurich. Madrid is responsible for coordinating business in France, Italy, Belgium, Holland, Luxembourg, Greece, Israel, Turkey and Portugal. IBM employs more than 6,000 people in Spain, but the country was relatively unaffected by the company's decision in 2005 to shed 13,000 jobs worldwide as most of the job cuts were in France and Germany. Spain also houses IBM's MareNostrum, Europe's most powerful computer.

Exhibit 2.15. Market Share of US Software and Hardware Companies in Spain

	% of Total Sales in 2004
IBM	13.7
Hewlett-Packard	13.5
Dell	3.5
Microsoft	2.8
Cisco	2.8
Sun	2.1
EDS	1.6

Source: Company reports.

Another major US player in Spain is General Electric (GE), which in 2005 opened a new Lexan resins plant in Cartagena, Murcia, the third phase of the GE Advanced Materials, Plastics complex, at a cost of 600 million. This plant raised GE's total investment in Spain to more than 3 billion, making the company a heavyweight investor in Spain. Lexan resin is an artificial thermoplastic that combines mechanical, optical, electrical and thermal properties of high quality. The polycarbonate is resistant, transparent and unbreakable and provides designers with new opportunities to create innovative economical products, such as glasses, CDs and cooking utensils. GE expects to export more than 90% of its production. The company is planning to build a fourth plant. GE has a dozen plants around Spain, including wind energy, power controls and lighting.

GE's financial services division set up a joint venture with a Spanish savings bank in 2005. CAMGE Financiera brings together GE Consumer Finance's Spanish operations and Caja de Ahorros del Mediterraneo (CAM), a large savings bank. GE had been looking to expand its Spanish financial services operations, which were restricted to financing for car buyers and mortgages sold through broker networks. CAMGE Financiera specialises in personal loans, branded credit cards, sales financing and auto loans. It distributes its products through CAM's 925-branch network, based in Alicante and spread along the Mediterranean coast.

Another landmark high-tech investment is AT&T's plant at Tres Cantos, Madrid – its first in Europe to build 1.75-micron custom integrated circuits. The \$200 million plant, opened in 1986, was initially a joint venture between AT&T and Telefónica, which at that time was a state monopoly beginning to be liberalised. The government was very eager to have this flagship plant as it was seen as the lynchpin of its electronics programme.⁶ Madrid put up an unprecedented 60% of the investment in grants and soft loans, plus the cost of having technicians trained in the US. In order to clinch the deal, the government also had to take steps to reassure the United States that sensitive “dual” technology which could be adapted for military use would not find its way to East bloc countries. The issue was resolved by Spain's entry into Cocom, the NATO-based committee which supervises “dual use” re-exports.

The plant was one of three major joint ventures negotiated by Telefónica. The other two involved Fujitsu, of Japan, which set up in Malaga, and Corning Glass of the United States, which built a 65%-controlled optical fibre plant near Barcelona, using Corning's latest technology.

In the food and beverages industry, Spain has its ubiquitous McDonald's fast-food chains, like everywhere else in Europe, but it also has producers, such as Kellogg, Kraft, RJR Nabisco (which bought Royal Brands from Tabalacera)

6. The investment was visible evidence that Spain, as Felipe González, the then prime minister was fond of saying, had “caught the train to the high-tech revolution.”

and Unilever Best Foods. Coca Cola and PepsiCo are also big in Spain – Barcelona is the headquarters of PepsiCo's Southern Europe Business Unit, which covers 11 countries. Coors Brewing turned its factory in Zaragoza, which it bought from Heineken in 1994, into its hub for the European market. This purchase was Coors' first outside the United States. In 2004 Wrigley, the world's largest chewing gum maker, acquired for \$272 million confectionery businesses that were part of the Joyco Group, a subsidiary of the Spanish food conglomerate Agrolimen. They included Boomer bubble gum, Pim Pim lollipops and Solano candy.

In the defence industry, General Dynamics, as a result of its purchase of Santa Bárbara Sistemas in 2001, is the main supplier of equipment to the Spanish armed forces. Santa Bárbara dates back to 1540 and was privatised by the previous Popular Party government. It makes armoured vehicles, weapons systems and ammunition and has sold its products to the armed forces of 47 countries. In 2002, Santa Bárbara bought Germany's EWK, which designs, develops and makes floating bridges and ferrying equipment for military forces.

Alcoa, the world's leading producer of aluminium, also entered Spain under a privatisation process when it acquired Inespal in 1998. Inespal has 13 plants around Spain and its history is basically that of aluminium in Spain. The first ton of this metal was produced at a small plant in Sabiñánigo, Huesca, in 1927. The company's name at that time was Aluminio Español and it was owned by French groups.

In research and technology, Boeing chose Spain in 2004 as the first country outside of the United States where it located an R&T centre. The facility at Madrid airport is designing and testing the control system for Boeing's energy-efficient demonstrator aircraft, technology that, if successful, will make air travel cleaner and more efficient. Boeing's relationship with Spain goes back to 1944, when three DC-3s were sold to Iberia airlines. In 1998, Iberia purchased its 100th Boeing jet. The relationship with local suppliers began in 1971, when CASA was awarded a contract to manufacture parts for the 727. Today CASA, a subsidiary of the European Aeronautic, Defence and Space Company (EADS), manufactures components for the 717, 777 and 737 jets at its plant in Seville. The Spanish government started its relationship with Boeing in 1973, when it purchased Chinook double-rotor military transport helicopters.

Spain's banking and insurance industries are two sectors of the economy which US companies, and foreign ones in general, have not penetrated to any significant degree. The only US bank with a network of branches in Spain is Citibank, which established itself in the country in 1983 after buying Banco de

Levante. Other banks, such as Bank of America, JP Morgan Chase and Morgan Stanley, are present in Spain, but with a much smaller presence and focused on wholesale, private and investment banking. There are also some US securities houses, such as Merrill Lynch.

CHAPTER 3

THE SPANISH PLAYERS IN THE UNITED STATES

Spanish direct investment in the United States is relatively small. The great bulk of the country's considerable investment abroad has been in Latin America and Europe, particularly the former and increasingly the latter. Apart from a few significant investments, such as Acerinox (stainless steel), Ferrovial (infrastructure), Indra (electronics), EADS CASA (aircraft) and Banco Bilbao Vizcaya Argentaria (bank), few Spanish companies have established a direct presence in the United States. Moreover, only a handful of companies are listed on the New York Stock Exchange (BBVA, Santander, Telefónica, Repsol, Endesa and Telefónica Móviles) and one on Nasdaq (Telvent). Telefónica joined the Dow Jones Global Titans 50 in 2005.

Iberdrola, the electricity company, was in talks in 2000 to acquire Florida Power & Light Company, Florida's largest power company, but Iberdrola's Board never approved the mega \$11 billion deal. Telefónica bought the internet portal Lycos for \$12.5 billion in 1999 at the height of the Internet boom and sold the US part of this business for \$105 million in 2004 to South Korea's Daum Communications in what was one of Spain's biggest corporate failures. It kept Lycos' European portal business.

Spain's net direct investment flows in the United States, based on the immediate investing country of destination and not the ultimate investing country of destination, amounted to 13.39 billion between 1996 and 2004, 7.5% of the total and compared with 22.69 billion in Argentina and 20.66 billion in the United Kingdom (see Appendix 4). The United States' annual share of Spain's investment abroad varied between 0.2% and 18%.

Spain's direct investment in the United States on a historical cost basis, according to the US Bureau of Economic Analysis, stood at \$5.6 billion at the end of 2004, compared with \$21.1 billion for the much smaller economy of Ireland, whose stock of investment in the country rose sevenfold over ten years (see Exhibit 3.1). Spanish investment on this basis in manufacturing rose from

\$279 million in 1994 to \$1.7 billion in 2004, while that in depository institutions increased from \$1.7 billion to \$2.4 billion. According to Spain's Foreign Investments Registry, the stock of direct investment in the United States, based on the immediate as opposed to the ultimate investing country of destination, amounted to 6.8 billion at the end of 2003 (latest year available), 5.9% of the total stock of Spain's investment abroad and the seventh largest (see Exhibit 3.2).

Exhibit 3.1. Foreign Direct Investment in the United States on a Historical Cost Basis (US\$ millions)*

	1994	2004
Total	480,667	1,526,306
Europe	294,035	1,078,287
France	32,950	148,242
Germany	39,630	163,372
Ireland	2,974	21,153
Italy	2,904	7,421
Spain	2,430	5,669
UK	98,732	251,562
Asia and Pacific	113,048	218,583
Japan	98,513	176,906
Rest	73,584	229,436

(*) Net assets at market value.

Source: US Bureau of Economic Analysis.

The United States was the seventh-largest recipient of Spain's net investment in 2004 (see Exhibit 3.3). The exceptionally high figure for the United Kingdom was due to Santander's purchase of Abbey, the sixth-largest UK bank, in the largest cross-border acquisition of a retail bank in the Euro zone.

After Spain joined the European Union in 1986, the strategic focus of large companies, in particular, gradually changed from one of defending their relatively mature home market to aggressively expanding abroad. The liberalization of the domestic market in Spain as European single market directives began to unfold made big Spanish companies, particularly the state-run monopolies in telecommunications (Telefónica) and oil and natural gas (Repsol), more conscious of the need to reposition themselves in the more competitive environment. Outward direct investment surged from an average of \$2.3 billion in 1985-95 to \$18.9 billion in 1998, \$42 billion in 1999, a peak of \$54.6 billion in 2000 and \$42 billion in 2004, according to the OECD. Little of it went to the United States.

Exhibit 3.2. Total stock of Spanish Investment Abroad by the Immediate Investing Country of Destination

Country	Shareholders' Equity*	
	Amount (€ mn)	% of Total
OECD countries	63,127	54.71
EU countries	51,352	44.51
Former EU-15 countries	49,774	43.14
France	5,151	4.46
Germany	4,487	3.89
Italy	4,213	3.65
Netherlands	11,190	9.70
Portugal	13,216	11.45
United Kingdom	7,033	6.10
New EU countries (10)	1,577	1.37
Non-EU countries	2,306	2.00
Switzerland	2,135	1.85
Non-European OECD countries	9,470	8.21
Australia	2,095	1.82
United States	6,819	5.91
Tax havens	4,286	3.71
African countries	1,750	1.52
North Africa	1,366	1.18
Latin America	45,537	39.47
Mexico	8,363	7.25
Argentina	10,104	8.76
Brazil	12,914	11.19
Chile	7,731	6.70
Colombia	1,828	1.58
Peru	2,112	1.83
Other countries	-687	-0.60
Total	115,378	100.00

(*) Based on the weighted equity of companies with direct Spanish investment.

Note: These figures exclude direct investment in special-purpose entities. They cover investments in branches and equity stakes in unlisted companies and in listed companies if the stake is equal to or exceeds 10%.

Source: Foreign Investments Registry.

Latin America was a natural first choice for Spanish companies keen to invest abroad.¹ As well as the companies' own push factors, there were several pull factors. Two of them were purely economic: liberalization and privatization opened up sectors of the Latin American economy that were hitherto off limits, and there is an ongoing need for capital to develop the region's infrastructure. Two are cultural: the first is the common language and the ease, therefore, with which management styles can be transferred. Another attraction is the sheer size of the Latin American market and its degree of underdevelopment. The macroeconomic fundamentals of Latin America as a whole and some countries in particular, such as Mexico, had also become sounder, making the region a less risky place to invest. Lastly, democracy was gradually taking root in an increasing number of countries.

Exhibit 3.3. Spanish Net Investment Abroad. Top 10 Immediate Host Countries*

Country	€ millions
1. United Kingdom	16,274
2. France	3,953
3. Mexico	3,551
4. Netherlands	3,087
5. Italy	1,298
6. Chile	676
7. United States	582
8. Brazil	543
9. Portugal	481
10. Germany	309

(*) Data for 2004 and excluding special-purpose entities.

Note: Host countries refers to the first or immediate country of destination and not to the ultimate investing country.

Source: Spain's Foreign Investment Registry.

The European market is much nearer to Spain but much more expensive than Latin America, while the US market is further away, more developed (thus offering fewer opportunities) and is generally more expensive to enter than Europe. The banks, for example, have been able to buy market share in Latin America much more cheaply than in mature European markets. BBVA's Research Department roughly calculated, on the basis of the stock market capitalization of each country's biggest banks and their share of deposits at the end of 1999, that a 1% share of the German deposit market in 1999 cost

1. This subject is dealt with in much more detail in my last book, *Spanish Direct Investment in Latin America: Challenges and Opportunities* (Elcano Royal Institute, 2003). See www.realinstitutoelcano.org/publicaciones/libros/SpanishDirect.pdf.

\$2.2 billion if this was attained by purchasing shares in the major listed banks. The same share would have represented an outlay of \$196 million in Argentina or \$205 million in Mexico. Both BBVA and Santander acquired banks in Argentina and Mexico. Apart from Santander and BBVA, the bulk of investment has come from a group of large oligopolistic and privatized companies (Telefónica, Repsol and Endesa).

1. Some of the Main Spanish Companies in the United States²

One of the largest Spanish investments in the United States is Acerinox's stainless steel plant in Carroll County, Kentucky. North American Stainless (NAS) was formed as a partnership in 1990 between Acerinox and the US company Armco, AMC (now part of AKL Steel). In 1994 Acerinox bought out all but 5% of Armco's shares, and since 2001 it is the sole owner of NAS. Acerinox's total capital expenditure on NAS exceeds \$620 million. Acerinox has several plants in Spain and in 2002 became the world's third-largest steel producer when it acquired 64% of Columbus Stainless in South Africa.

NAS is a successful, low-cost, highly efficient, state-of-the-art plant for flat-rolled products in the United States. It has more than 1,000 employees. In 2004 NAS had almost 25% of the stainless hot and cold sheet and strip market in the United States and 42% of the plate market. The company's fourth cold-rolling mill was under construction in 2005.

Another high-tech company is Indra, Spain's leading information technologies and defence systems company, which entered the US market in 1994 when it was selected by the US Navy to supply full mission simulators, radar trainers and test programme sets for the AV-8B+ Harrier combat aircraft. Since then, this business has earned Indra more than \$250 million.

As well as the AV-8B+ Harrier, Indra has won tenders to supply simulators and test programme sets for other aircraft used by the US Navy (F-14 Tomcat, F-18 Hornet and the MH-60 Seahawk).

Indra set up a wholly owned subsidiary in Orlando, Florida, in 1998 that employs more than 60 people and develops, manufactures, supplies and maintains systems ordered by the US Navy. In 2003, Indra was classified to compete for the US Navy's \$3 billion aeronautical simulation contract over five years. Indra also works for leading companies, such as Lockheed Martin and Boeing.

Another high-tech company is the aircraft manufacturer EADS CASA, the Spanish arm of EADS, the largest aerospace company in Europe and the

2. Appendix 2 lists many more companies.

second-largest in the world. Following the deregulation of the internal US air transport market at the end of the 1970s, CASA saw an opening in the United States for its C-212 turboprop aircraft, some of which were sold via distributors. It established a subsidiary in the United States in 1984 but did not obtain any significant business until after 1999, by which time it was part of EADS.

EADS CASA is an example of a company that was convinced it would eventually be successful and managed to hold out for a long period until business began to come in. It began to sell CN-235 aircraft to private operators and to study how it could win contracts with agencies of the federal government. EADS CASA decided to maximise its possibilities by agreeing to be a subcontractor in all three bids (Boeing, Raytheon and Lockheed Martin) for a contract with the US Coast Guard, rather than tying itself to just one. The breakthrough came in 2002, when the joint venture ICGS, between Lockheed Martin and Northrop Grumman, won the bid and decided to use EADS CASA's CN-235-MPA twin-turboprop aircraft rather than the C-27J, the main rival of the CN-235 and produced by another division of Lockheed Martin.

The three initial EADS CASA CN-235 MPAs will be the first of a planned multiyear procurement of MPAs for the Coast Guard's Deepwater System programme. The total number to be bought depends on US budgetary priorities and could be up to 36, worth more than \$700 million, with a back-up contract worth more than \$400 million. EADS CASA is scheduled to deliver the first three to the Coast Guard before the end of 2006. The contract, including training and support, is worth \$110 million. As a result of this contract, in 2005 EADS CASA set up a Support Centre in Mobile, Alabama, at a cost of \$1 million in order to guarantee the best possible service. This was a smart move, particularly in the light of the cooling-off of US-Spain relations, as it opens the door to support from politicians in Alabama as EADS CASA will be creating employment.

Other potentially lucrative avenues for EADS CASA include the possibility of selling 120 C-295 aircraft to the US Army as part of the Future Cargo Aircraft (FCA) programme resulting from the cancellation of the Comanche helicopter programme and selling 15 aircraft to the US Customs, which is modernising its fleet.

Tucked away in Cambridge, Massachusetts, is PharmaMar USA, a subsidiary of the Spanish company, PharmaMar, the leading biopharmaceutical company in the world for advancing the care of cancer patients through the discovery and development of new marine-derived medicines and part of the Zeltia group. The US unit is not randomly located; Cambridge has one of the world's largest clusters of biotechnology research companies, as it is the home

of Harvard University and the Massachusetts Institute of Technology and provides unique advantages in terms of knowledge and access to top-rank researchers.

PharmaMar USA was founded in 1991 with just \$24,000 in equity and three employees. Its research budget that year amounted to \$235,000. It now has a staff of 27 researchers and an annual budget of \$6.5 million. PharmaMar has the world's largest library of marine samples (more than 42,000) and is far from being a "one product, one technology company". It already has five cancer drugs in clinical development and more than 3,000 patients have been treated with these agents.

In oil and petrochemicals, Cepsa, the big Spanish group, does not have a direct presence in the United States, but its two subsidiaries in Canada, Petresa and Interquisa, also serve the US market. Petresa produces raw materials for detergents and Interquisa makes purified terephthalic acid. The companies are 51% owned by Cepsa and 49% by Société Générale de Financement du Québec, the industrial and financial holding company of the government of Quebec. Petresa is the only manufacturer of linear alkyl benzene and it has a 22% market share for this product in North America.

In infrastructure, Spain's construction companies have been very successful in Canada, Australia, the United Kingdom and some Latin American countries (building roads, airports, etc) and the door to this business in the United States is now open. Cintra, one of the world's largest private-sector developers of transport infrastructure and part of Grupo Ferrovial, teamed up with Australia's Macquarie Infrastructure Group (MIG) to win the first contract in the United States to operate a privatised toll road. The two companies won a 99-year lease to operate the Chicago Skyway as of 2005 at a cost of \$1.8 billion. MIG has a 45 percent stake in the operation and Cintra 55 percent.

Cintra, together with the Texan company Zachry, followed this up by winning the contract to develop the first phase of the Trans-Texas Corridor (TTC-35) – a visionary transportation system for the future of the Lone Star State. The proposed Corridor will be a multi-use, state-wide network of transportation routes that will include separate lanes for passenger vehicles and large trucks, high-speed commuter railways, freight railways, infrastructure for utilities (such as water lines and oil and gas pipelines) and transmission lines for electricity, broadband and other telecommunications services.

The first phase of the TTC-35 involves building a \$6 billion toll road between Dallas and San Antonio by 2010. In exchange for building and operating it as a toll facility, the consortium will pay the State of Texas an additional \$1.2 billion, which the state may use to fund road improvements or high-speed and commuter rail projects. Cintra, which manages 17 motorways

in six countries, including Canada, Ireland, Portugal and Chile, beat two consortia led by American and European companies. Close to three-quarters of Cintra's business is generated abroad. Ferrovial further strengthened its US presence in August 2005 when it agreed to buy Webber Group, the third largest Texan construction group, for 178 million.

Gamesa, the wind power company, inaugurated its first wind park in the United States (in Illinois) in 2004. The electricity it produces is bought by Commonwealth Edison, the supplier of Chicago's metropolitan area. Gamesa has also been developing wind parks in Minnesota, Wisconsin, South Dakota and Iowa, among other states.

The innovative Talgo, which has developed its own technology for trains based on guiding rolling stock wheelsets, began its involvement in the United States in 1994 when the Washington State Department of Transport (WSDOT) used two of its trains for a commercial test. This proved successful, and in 1998 WSDOT and Amtrak contracted five trains and coaches to operate the Seattle-Vancouver, Seattle-Portland-Eugene and Los Angeles-Las Vegas lines. Talgo's contract runs until 2018.

Given the size and economic importance of the Hispanic community in the United States (see Chapter 5) and a language shared with Spain, there are growing opportunities for Spanish media and publishing companies. Grupo Prisa, Spain's largest multimedia group, whose businesses include *El País*, the main daily, has radio stations in the United States and also sells textbooks to learn Spanish and English. Caracol Miami, along with WSUA, is the leader among Hispanic AM stations in almost all time slots, a position that was reinforced in January 2005, when it received permission to boost its broadcasting power in order to reach audiences in southern Florida. In addition, WSUA has an exclusive agreement with the Miami Dolphins football team to broadcast NFL matches. In April 2005 Prisa acquired the 690AM (XTRA) radio station, which broadcasts in Los Angeles and southern California.

Steps were also taken to expand Prisa's radio operations in the United States with the creation of GLR Networks to syndicate contents and programmes for the Hispanic population. The radio stations are part of Prisa's strategy of building up a pan-American network. It also has stations in Mexico, Colombia, Chile, Costa Rica and Panama.

In 2004 Recoletos, the second-largest media group, which publishes Spain's leading sports and financial newspapers, helped to set up a chain of Spanish-language newspapers in Texas. Rumbo has newspapers in San Antonio, Houston, Austin and the Rio Grande Valley. Hispanics will become a majority in the state in 20 years or so, according to demographers, and are

already the largest ethnic group or majority in several of its largest cities.³ Rumbo mixes local news and sports with dispatches from Latin America. Its combined circulation is around 100,000 a day. Other newspapers in the same areas reacted with pre-emptive attacks, creating or buying Spanish-language newspapers to compete with Rumbo. In Austin, for instance, *The Austin American-Statesman*, owned by Cox Newspapers, introduced *jahora sí!*, a free Spanish-language paper.

Rumbo is targeting first-generation immigrants, mostly from Mexico, who get all their news from Spanish-language sources, according to the Pew Hispanic Center in Washington. However, some analysts believe that the market for Spanish-language newspapers over the long term is not strong, as the more acculturated the Hispanic community becomes, the more likely it is to read English. Recoletos sold its stake in Meximerica Media, the publisher of Rumbo, in May 2005.

In the food industry, Ebro Puleva acquired Houston's Riviana Foods, the United States' largest rice processor, in 2004 for \$380 million. Ebro Puleva has a 30% market share of the rice sector in Europe. With its *Carolina*, *Mahatma* and *Success* brands, Riviana is the main seller of rice in the United States by volume (17% market share), and it has subsidiaries in Central America, Belgium and the United Kingdom. Riviana and Ebro Puleva had been partners for years – before the deal Ebro was Riviana's largest shareholder – and they have participated in many joint ventures. Another Spanish company, Grupo SOS, owns American Rice, also based in Houston and one of the world's premier millers and marketers of branded rice products including *AA Rice*, *Adolphus Rice* and *Wonder Rice*.

In wines, Torres has vineyards in California for Chardonnay and Pinot Noir cultivation and Freixenet, the world's largest producer of sparkling wine (cava), has vineyards in the Sonoma Valley (and in Mexico). Freixenet's main rival, Codorníu, also has vineyards in California (Napa).

2. Spanish Banks in the United States

Compared to their massive investment over the past decade in buying Latin American banks, Santander and Banco Bilbao Vizcaya Argentaria (BBVA), Spain's two largest banks, have been very modest in their acquisitions in the United States. Santander, Spain's largest bank and the biggest in the Euro zone by market capitalisation, and BBVA own banks in the associated free state of Puerto Rico, and BBVA has two small banks in the United States.

3. See "A Texas Paper Bets on Español, Not Assimilation", by Simon Romero (*New York Times*, January 31, 2005).

Santander acquired 13.3% of First Fidelity, New Jersey, in 1991 for \$650 million and then built it up to almost 30% while Fidelity bought several smaller banks. In 1995 North Carolina's First Union Bank merged with First Fidelity, giving Santander an 11% stake in the new bank, the sixth largest in the United States. Santander then sold its stake for more than \$2 billion and used the proceeds from this astute investment, after a search lasting some nine months that considered 80 targets, to amortise the goodwill on the acquisitions of banks in Argentina, Chile, Colombia, Mexico, Puerto Rico and Venezuela.⁴ Later, the ambitious idea of Emilio Botín, Santander's chairman, to build a new headquarters on the outskirts of Madrid – Grupo Santander City – was inspired by a visit to First Union's campus headquarters.⁵

Spanish banks in the United States focus on investment, private and wholesale banking and brokerage of securities, essentially in New York and Miami, and very little on retail banking apart from BBVA's two small banks. In 2004 BBVA bought Valley Bank of California for \$16.7 million and Laredo National Bancshares (LNB) of Texas for \$850 million. At the time of its purchase, LNB had assets of \$3.4 billion, 49 branches and 110,000 customers – small figures compared to BBVA's bank in Mexico, BBVA Bancomer (the country's largest, with assets of \$62.3 billion in 2004 and 1,812 branches, and also the biggest bank in the Spanish-speaking world).

Before BBVA acquired Bancomer in 2000, the Mexican bank's branch in Los Angeles was among the victims in 1998 of a sting operation, known as Operation Casablanca, against money-laundering by drug cartels. Police arrested more than 160 people from six countries and from more than a dozen banks in Mexico and Venezuela. As a result, Bancomer Transfer Services (BTS) in Houston developed a very effective and sophisticated firewall for detecting money-laundering operations. A deal was struck with the US Post Office for money transfers, and this network was also expanded to include other banks and money transfer institutions. The seeds of BBVA's purchase of the two small banks were sown during this period, as the money transfer business in the United States through Bancomer's network (more than 1.5 million transactions on normal days and more around Christmas, birthdays and other special days) made BBVA aware that this client base (3-5 million) could be used for other business with the growing Hispanic community. BTS's market share of remittances between the United States and Mexico has risen from 10% to 40%.

4. See Chapter 5 of *The Rise of Spanish Multinationals* by Mauro Guillén (Cambridge University Press, 2005).

5. As this book went to press, Santander announced it was buying a 20% stake in Sovereign Bancorp, a Philadelphia-based bank and the country's 18th largest by assets, for \$2.4 billion. Santander's purchase was used to help Sovereign finance the takeover of Independence Community Bancorp of New York. Santander will have the option to buy the entire group as of 2008.

Mexican emigrants in the United States sent \$16.6 billion in cash to relatives back home in 2004, three times the figure in 1999. If the 2005 estimates hold true, remittances will be the largest source of foreign exchange in Mexico, surpassing oil.

In 2003 BBVA began to sell telephone cards to customers of BTS Services so that people transferring the money could contact those receiving it. It also started to cash cheques of small amounts (from, for example, gardeners earning a couple of hundred dollars a month), with BBVA assuming the risk that the cheques would be honoured. It is not easy for immigrants to open bank accounts unless they have the required identification documents (which vary from state to state).

California, where Valley Bank is located, has the largest concentration of Hispanics in the United States (more than ten million and mostly Mexican). LNB in Texas (more than five million Hispanics) has two banks, The Laredo National Bank and South Texas National Bank, which have a joint market share of more than 23% of the banking business generated around the Texas-Mexico border. Bancomer also has a strong position in the frontier states in Mexico, which enhances its business in California and Texas. The bank has a market share of 34% in Chihuahua, 31% in Sonora, 30% in Baja California, 28% in Coahuila and 20% in Tamaulipas.

BTS, with its range of para-banking products – money orders, telephone cards and cheque cashing – is acting as a kind of “nursery” for immigrants whom BBVA hopes will graduate to its two banks that offer full services and products. It would not be surprising if BBVA acquired other banks of a similar nature in the United States, depending on the success of these investments and the cost of future ones.

Santander is also involved in the remittances business. It sold 24.9% of Serfin, its bank in Mexico, in 2000 to Bank of America as part of a strategy to gain more Mexican-American customers in the United States and increase its market share of remittances. Remittances are sent to Serfin via Bank of America’s SafeSend system.

Miami’s emergence as a financial and business centre for Latin America, after the state of Florida was opened to foreign banks in 1978, led many Spanish commercial and savings banks – and not just the big commercial banks like Santander and BBVA – to open agencies or branches in the city. For example, Caixanova, a savings bank from Galicia in northwestern Spain, opened an office in Miami as part of an effort to reach the 600,000 Galicians that live in South America. In 2003 Santander bought Coutts International’s Latin American private banking division from The Royal Bank of Scotland (1,400 customers, \$2.6 billion in assets), roughly doubling its assets in Miami.

Exhibit 3.4. Ranking of Banks in Puerto Rico by Tier 1 Capital

Ranking	Tier 1 Capital (US\$ mn)	Assets (US\$ mn)	Capital Assets Ratio (%)	Return on Assets (%)	Cost/Income Ratio (%)	BIS Capital Ratio (%)	NPL to Total Loans (%)
Popular	3,316	44,402	7.47	1.43	59.44	13.2	11.91
Doral Financial Corp	1,706	15,141	11.27	3.31	29.59	18.91	1.34
First BanCorp	1,336	15,620	8.55	1.41	40.61	14.89	0.94
R&G Financial Corporation	1,173	10,199	11.5	2.08	44.29	17.78	1.91
W Holding Company	1,078	14,337	7.52	1.35	30.41	15.7	0.57
Santander Bancorp	500	8,332	6.0	1.11	67.06	11.9	1.57
Oriental Financial Group	435	4,168	10.44	1.78	47.99	41.9	1.4
BBVA PR Holding Corporation	349	5,544	6.3	1.03	56.97	12.51	1.4
EuroBancshares	202	2,103	9.6	1.28	52.08	13.98	2.32
Scotiabank de Puerto Rico	176	1,244	14.16	0.17	81.77	16.76	4.15

(*) Figures for 2004.
Source: The Banker.

Puerto Rico, where Santander and BBVA own the second- and seventh-largest banks, respectively, in terms of deposits and where both English and Spanish are the official languages, was one of the first places in the Western Hemisphere that these banks entered (see Exhibit 3.4). Santander bought First National Bank of Puerto Rico in 1976, renaming it Banco Santander de Puerto Rico, and two years later it acquired Banco de Crédito y Ahorro Ponceño. In 1989, Santander purchased Bayamón Federal Savings Bank and changed the name to Santander National Bank. This was followed by the purchase the next year of Caguas Central Federal Savings Bank, which made Santander the second-biggest bank in Puerto Rico. In 1994 Santander merged its two banks and two years later added Banco Central Hispano's subsidiary. Today Santander Puerto Rico has 72 branches and a 12% market share in deposits.

BBVA's experience has been somewhat similar. In 1979 Banco Occidental, a small Spanish bank, acquired Banco Comercial de Mayagüez. Banco Vizcaya (one of the three banks that forms BBVA) bought Occidental in 1982 when it collapsed and in 1993 purchased Royal Bank of Canada's subsidiary, Royal Bank of Puerto Rico. Banco Ponce and Chase Manhattan's retail assets and liabilities were added in 1998. Today, BBVA Puerto Rico has 49 branches and a market share of 5.5% in deposits.

3. Spanish patents registered in the United States

As well as a low level of direct investment in the United States, Spain also has a very small number of patents registered in the country for an economy of

Exhibit 3.5. Patents Registered in the United States, by Country, 1976-2005*

Country	Assignee Country	Inventor Country
Argentina	185	1,039
Chile	78	249
Finland	11,329	11,858
France	75,773	95,539
Hungary	1,881	2,980
India	1,342	2,980
Ireland	1,245	2,525
Italy	29,251	41,070
Mexico	604	2,160
Portugal	83	276
Spain	2,716	6,058
Sweden	24,436	30,958
United Kingdom	24,133	43,887

Up until September 20, 2005.

The assignee country is the country of the individual or entity who is the owner of the patent at the time of the patent issue.

The inventor country is the country of residence of the inventor at the time of the patent issue. Some patent documents list several inventors, who could be residents of different countries.

Source: United States Patents and Trademark Office.

its size (see Exhibit 3.5). This reflects the low expenditure on R&D (1.1% of GDP, almost half the EU-25 average and compared with the United States' 2.7%) and, with some notable exceptions (e.g. PharmaMar), means that Spain is not a country noted for its degree of innovation.

CHAPTER 4

FOREIGN TRADE

The US market, in the words of a former Spanish trade commissioner, is “like Troy was for the Greeks – very difficult to conquer from without, very expensive to conquer from within.”¹ The easiest thing to do is to ignore the market and concentrate on others, such as Europe and Latin America, which is what the vast majority of Spanish companies do. But it is too important to overlook, and success in it often means that a company is ready to be a global player. Spain’s efforts to sell to the world’s largest market (excluding intra-European Union trade) have so far not amounted to very much. The United States takes around 4% of the country’s total exports, roughly the same as the proportion that goes to all of Latin America and less than half that to neighbouring Portugal (see Exhibit 4.1). It is normal for a country to trade more with its immediate neighbours (in the United States’ case Mexico and Canada), but what reveals a weakness in Spain’s case is that the United Kingdom, Germany, Italy and France trade much more with the United States as a proportion of their total trade. For example, the United States takes around 15% of the United Kingdom’s total exports.

According to US figures, Spanish exports account for a mere 0.5% of America’s total foreign purchases (0.7% in 1989), one-sixth the UK share, one-fourth the French share and one-fourth the Italian share and compared with Spain’s 2% share of global trade (see Exhibit 4.2). Spain’s share of the US market is more in line with that of medium-sized EU countries, such as Austria, Belgium or Denmark, whose economies are much smaller. Although the volume of exports is small, the United States is Spain’s sixth-largest market, making it a top-tier trading partner, only exceeded by Spain’s “natural” markets of France, Germany, Portugal, the United Kingdom and Italy. The

1. See the article by Manuel Valle, a former trade commissioner in New York, in the autumn 2001 issue of *Economía Exterior*.

Exhibit 4.1 Spain's Exports by Geographic Area (%)*

	% of the total
European Union	74.0
France	19.3
Germany	11.6
Portugal	9.7
Italy	9.0
Asia	5.5
Latin America	4.3
Africa	4.0
United States	3.9
Rest	8.3

(*) 2004 figures.
Source: Secretariat of Trade.

European Union takes close to three-quarters of Spain's total exports, and in the rest of the world the United States accounts for around one in every six euros of export revenue. In terms of total trade (exports and imports), the United States is Spain's seventh-largest trade partner (see Exhibit 4.3).

Spain runs a trade deficit with the United States, according to Spanish figures (see Exhibit 4.4).² Although the volume of exports is small, the

Exhibit 4.2 US Market Share of Exporting Countries (%)*

	1997	2000	2004
Canada	19.2	18.8	17.4
European Union	18.1	18.1	18.6
Germany	5.0	4.8	5.2
United Kingdom	3.8	3.6	3.1
France	2.4	2.4	2.1
Italy	2.2	2.1	1.9
Spain	0.5	0.5	0.5
Japan	14.0	12.0	8.8
Mexico	9.9	11.2	10.6
China	7.2	8.2	13.4
Taiwan	3.7	3.4	2.3
South Korea	2.6	3.2	3.1

Note: Figures rounded up or down to nearest decimal point.

(*) Percentage of each year's US imports by country.

Source: US Department of Commerce, Bureau of Census.

2. According to the figures of the US Census Bureau, the United States has recorded a trade surplus with Spain since 2001. The difference between the US and Spanish figures is quite significant. For example, according to Spanish data, in 2004 Spain registered a trade deficit of 1.66 billion with the United States. However, instead of a surplus, as one would expect, the United States also recorded a deficit (\$835 million or 695 million on the basis of that year's average exchange rate). The differences in the figures are largely in US exports to Spain that enter via another country and not directly. They therefore appear as imports in Spain's figures but not as exports to Spain in US figures.

Exhibit 4.3 Spain's Top Ten Trade Partners (€ million)*

France	60,146
Italy	52,999
Germany	50,475
United Kingdom	25,909
Portugal	21,001
Netherlands	13,376
United States	13,263
Belgium	10,851
China	9,645
Japan	6,890

(*) 2004 figures.

Source: Secretariat of Trade.

diversity of products is quite wide, albeit mainly traditional goods. They range from machinery and mechanical appliances to the more traditional footwear and ceramic products (see Exhibit 4.5). The structure of exports very much reflects, as one would expect, the medium/low technology structure of the Spanish economy which, moreover, has gradually been losing competitiveness over the last few years. Spain slipped to 38th position in 2005 from 31st in 2004 in the competitiveness ranking of 60 countries drawn up by IMD.

Exhibit 4.4. Trade of Goods between Spain and the United States (€ million)

Year	Exports to US	Imports from US	Balance
1995	2,875	5,537	-2,662
1996	3,263	5,928	-2,665
1997	4,086	6,849	-2,763
1998	4,187	7,026	-2,839
1999	4,598	7,654	-3,056
2000	6,052	8,758	-2,706
2001	5,652	7,871	-2,219
2002	5,787	7,203	-1,416
2003	5,689	6,859	-1,170
2004	5,799	7,464	-1,665

Source: Secretariat of Trade.

Exhibit 4.5 Spanish Exports to the United States by Trade Chapter

Trade Chapter	US\$ Million		Market Share (%)		Share of Total Spanish Exports to US (2004)
	1998	2004	1998	2004	
Total exports	4,780	7,476	0.5	0.5	–
(84) Nuclear reactors, boilers, machinery and mechanical appliances	482	808	0.3	0.4	10.8
(98) Special classification provision	137	276	0.5	1.0	4.7
(27) Mineral fuels, mineral oils and products of their distillation	207	462	0.3	0.2	6.2
(72) Iron and steel	313	279	1.9	1.2	3.7
(64) Footwear, gaiters and the like; parts of such articles	391	225	2.8	1.4	3.0
(85) Electrical machinery and equipment	201	337	0.1	0.2	4.5
(69) Ceramic products	219	282	6.5	6.0	3.8
(20) Preparation of vegetables, fruits and nuts	263	311	11.2	8.8	4.2
(87) Vehicles other than railway or tramway rolling stock, and parts and accessories	201	339	0.1	0.2	4.5
(29) Organic chemicals	180	463	0.9	1.2	6.2
(73) Articles of iron and steel	124	279	1.0	1.2	
(30) Pharmaceutical products	22	436	0.25	1.4	5.8

Note: Figures rounded up or down to nearest decimal point.

Source: US Department of Commerce, Bureau of Census.

Spain, like Italy, exports shoes, but whereas most of Spain's shoes are lower-priced "private label" brands, Italy sells brand names, based more on design and a differentiated product, which are sold for higher prices. The volume of Spanish shoes exported to the United States has been declining since 1999 (from 18.5 million pairs to 7 million in 2004), mainly as a result of the strong competition from China. Quality, however, and not quantity is what should matter for a country at Spain's stage of development. The trade chapters where Spain's market share is highest (tinned food, shoes, cement and ceramics) represent less than 5% of US imports and these market shares have been declining. For example, the market share in footwear halved between 1998 and 2004 to 1.4%. On the other hand, the market share of pharmaceuticals rose almost sixfold over the same period to 1.4% – thanks to US and other multinationals in Spain.

Several of the US multinationals in Spain are major exporters, notably Opel (General Motors) and Ford, which every year are among the country's top ten exporters. Ford began to produce cars in Spain in 1976, when its exports accounted for 26% of its total sales. The yearly average since then has been around 75% (see Exhibit 4.6).

The US market is very demanding and is not for the faint-hearted. Most Spanish companies ignore it, despite the many years of promotional and

Exhibit 4.6 Ford's Exports of Vehicles, 1976-2004

Year	Exports (units)	% of Total Output
1976	4,526	26
1980	209,834	79
1985	204,499	77
1990	211,543	63
1995	241,003	74
2000	287,052	83
2004	386,503	86

Source: Ford.

preparatory work in many sectors by Spain's trade authorities – the Secretariat of Trade, the Spanish Institute of Foreign Trade (ICEX) and trade offices in the United States. ICEX spent 16% of its global marketing budget in the United States in 2004, four times the US share of Spain's total exports. Breaking into the US market requires more initial investment in advertising, sales networks, direct marketing, point-of-sale promotions and public relations than any of the European markets, all of which are closer, cheaper to service, and easier to export to. Some firms believe they can come on a single mission, go to one trade fair and start generating sales. This is not the way. It is generally agreed that the most important thing to do first is to find an importer, representative or agent and nurture that relationship. Forming a joint venture often helps to sustain the business relationship.

The US business culture is very different. For example, Spanish companies are reluctant to give US importers the prices of their products before the first meeting. This can lead to the client refusing to see the Spanish firm. Spaniards prefer to discuss prices during their first contact as they believe it gives them flexibility to negotiate upwards or downwards, but this is a tactic that US buyers do not like, as they want to know where they stand right from the start.

Spanish exporters tend to test the waters badly prepared, according to trade experts on the ground. Catalogues, labels and adverts are often badly translated into English. The regional government of Navarra, for example, raised many a laugh among the cognoscenti when it placed an advert in *Time Out* in February 2005 to publicise the participation of top chefs in New York's gastronomic week. The advert was headed "Spanish fly", an unfortunate expression because, among other meanings, it was the Mediterranean fruit fly that led to a ban on Spanish exports of tomatoes and citrus fruits. In another advert, the Madrid Chamber of Commerce placed a very expensive advert for fashion in the *New York Times* in 2004 that said, "In Spain fashion is with a capital M". Americans were totally baffled. This was a play on words that worked in

Spanish (*En España la moda es con M mayuscula*, as both Madrid and moda begin with an “m”) but not at all in English.

Spanish exports are also held back by Spain’s image in the United States – or lack thereof (see Chapter 6). Few countries have undergone as much change as Spain has in the past 30 years – and on all fronts: economically, politically and culturally. Yet the image that still persists among Americans, much more than Europeans, still tends to be the traditional one of bullfights and flamenco. Spain sounds Latin, exotic, sunny to most American ears. But that does not generate sales of the kinds of products that Spain makes, which are increasingly mid- to high-tech (and sold to Europe, but not that much to the United States). The gap between perception and reality is partly due to the fact that Spain is a lot further from the United States than most other European nations; only around 1 million of the 54 million tourists that visit Spain every year are Americans, so there is relatively little personal knowledge of the country. It is also remarkable how many firms still use stereotyped images in their advertising that do not fit well with putting across the idea of a modern country.

Spain is not well known outside of New England, the TriState (New York, New Jersey and Pennsylvania), Chicago, California and Florida. It is not that the image is particularly negative, rather that Spain is a blank slate. As a result, Spanish products, outside of those areas where Spain is known, are often assumed to be products from Latin America and not from Europe. Americans are also confused by the institutional missions of Spain’s regional governments. Apart from the Basque Country, Catalonia and Andalusia, few of Spain’s regions are known abroad, and particularly not in the United States. For example, when the Castilla and León regional government (known in Spanish as the *Junta de Castilla y León*) sent a mission to New York and did not put Spain on its promotional literature, many people with a knowledge of Spanish thought it was something to do with a Latin American military government because of the word *Junta*. Such approaches create a confusing image of Spain that does not accord with the country’s reality. “If it is difficult to sell the Spain brand name, just imagine how difficult it is with one of Spain’s regions or even an individual city,” said Luis de Velasco, Spain’s former trade commissioner in New York.³ “All it does is create more confusion.”

These missions sometimes spend more in a week than the annual budget of the Trade Commission in New York, and the return is minimal. They are essentially to impress voters in the home region and attract local media attention.

3. See “La Soportable Levedad de la Presencia Económica Española en EE UU” (*La Estrella de Papel Independiente*, December 14, 2003).

The former Spanish prime minister, José María Aznar, raised Spain's profile in the United States as a result of his close ties with the first administration of George W. Bush and his support for the war with Iraq. Aznar made a particular point of visiting many of the Hispanic states, such as New Mexico, Texas, California and Florida, but this has made little, if any, difference to Spanish exports other than one-off phenomena such as temporarily boosting consumer products at the expense of France, which became unpopular for opposing the war (French fries were briefly dubbed "freedom fries").

Despite the common language, Spanish exporters have only been able to scrape the surface of the fast-growing Hispanic market of more than 40 million people (see Chapter 5). They have had better luck in Mexico, where the largest number of Spanish speakers in the world live. Spain's market share of Mexico's imports is 1.3%, almost three times that in the United States, despite the fact that the Mexican market is dominated by the United States (65% market share).

The Hispanic market in the United States has not so far proved to be a new "El Dorado". There are, of course, some not very important exceptions such as brandy, nougat (*turrón*) or some canned foods (vegetables and meats), which wholesale importers like Goya Foods, based in Secaucus, New Jersey, have brought to the Hispanic market. Hispanics, most of them from Mexico, tend to maintain their own unique culinary preferences and in general have Americanised tastes. The Hispanic market is far from being a homogeneous market, something that is not fully appreciated among Spanish exporters. The Latin American community that has the closest links with the "mother country", because it was the last colony that Spain lost and also because it received many Spanish immigrants, is the Cuban community, which is largely concentrated in Florida. Trade between Spain and Miami-Dade county, where around 8,500 Spaniards live, is more than \$1.2 billion a year. Carbonell's olive oil, a favourite among Cubans for many years, is the market leader in Florida, but in the rest of the United States it does not have a significant presence.

Just as ethnically we can speak of some products in terms of Hispanic, Asian, African-American, white or Jewish markets, so the US market as a whole is divided geographically. More than just a single market, the United States is a network of submarkets each with their own special features. This makes it difficult for Spanish exporters to break into the US market, as they have to do their homework well and find the geographic area (many of which, like California, have a population almost as large as Spain's) with the best potential. The obvious entry points – New York and Miami – are not always

the best places to start. Miami is fine as a gateway to Latin America (it is commonly known as “the capital of Latin America”) or for targeting Hispanics in the state of Florida, but it is not the best place from which to serve the rest of the United States.

Spanish exporters also do not benefit from the presence of a large community of Spaniards, as opposed to Hispanics, in the United States. Their number is very small, unlike the Irish and Italian communities. For example there are only an estimated 20,000 Spaniards living in New York and the neighbouring states of New Jersey, Connecticut, Delaware and Pennsylvania.⁴ One of the main factors behind the success of Italian exports to the United States is the ties between Italian exporters and Italian-American professionals. There is thus no critical mass that helps Spanish products to be introduced into a market and become known by word of mouth. This is particularly useful for gourmet and speciality foods, a market estimated to be worth \$27 billion in 2005. Irish bars, for example, act as channels for Irish beverages and food and the same goes for Italian restaurants. Spain’s share of this market is miniscule but growing. Whole Foods, a gourmet retailer in Manhattan, had very few Spanish products a few years ago and now carries a large selection of Spanish cheeses. Americans are also increasingly able to identify paella, gazpacho, olive oil, capers, saffron and clementines as products with Spanish roots. Americans also choose Spanish products when processes are similar to US practices. For example, mahon, a cheese from the Balearic Islands, has grown in popularity because it is made from cow’s milk and is similar to cheeses adapted to the American palate.

The relatively small volume of exports to the United States is also the result of the relatively low level of Spanish direct investment in the United States (see Chapter 3). A very significant proportion of trade with the United States is intra-company: 40% of US imports are goods shipped by a parent company to its subsidiary in the United States, and around 30% of US exports are goods shipped by companies to their subsidiaries abroad.

Trade with Germany is a good case in point: 60% of its exports to the United States are intra-company (9% by US subsidiaries to their parent companies and 50% by German companies to their subsidiaries in the United States). Spain’s figure is much lower at 27%, and it is almost equally divided between exports by US subsidiaries to their parent companies and those by Spanish companies to their subsidiaries in the United States. US investment in Spain is relatively high, particularly in the auto, chemical and pharmaceutical sectors, but the main purpose of these companies, generally

4. According to the 2000 census, there were just over 100,000 Spaniards living in the United States (0.3% of the population).

speaking, is to penetrate the domestic market and not to generate trade flows with the United States.⁵

Ireland is another interesting example. Its market share of America's foreign purchases rose almost fivefold from 0.4% in 1991 to 1.9% in 2004, making it the twelfth-largest supplier. This increase was largely the result of intra-company trade resulting from a big rise in Irish direct investment in the United States and US investment in Ireland. Spain's market share is just about holding steady; in order to increase its exports to the United States it will have to grow at a much faster pace or a lot more direct investment will be needed. Spain's exports to the United States grew by 12% in 2004, according to US figures, compared with 56% for Nigeria, 45% for Venezuela, 37% for Russia, 22% for Belgium and 29% for China (which that year overtook Japan as the world's third-largest exporter).

A commonly heard complaint about Spanish companies is that they do not always have a sufficiently large stock to sell, so that when an importer places an order it cannot be filled. Some consumer goods companies only want to sell symbolic amounts in the United States, as this can help them open doors into other much easier markets where the company can impress clients by saying that it sells to Saks Fifth Avenue or Neiman Marcus.

This is the case, for example, with some wines, although Spanish wines are increasingly well rated by specialist publications in the United States, such as *The Wine Spectator*, the bible of the wine trade. Six of Spain's wines were ranked among the world's top 100 wines in 2004, and one of them was in the number three spot, the highest place so far achieved by a Spanish wine (see Exhibit 4.7). Also, Freixenet is the best-selling sparkling wine (cava) in the United States. Exports of Spanish wines to the United States have been on an upward trend since 2000 (see Exhibit 4.8).

The US market is a tough one to break into, but the rewards can be considerable. An example of this is Inoxcrom, which makes and distributes writing instruments. In 1996 Jordi Piqué, who had left Barcelona to work in Australia, where he boosted the company's position from 78th to 4th place by sales volume, proposed that Inoxcrom study the potential of the US market. The results were encouraging, and Inoxcrom set up a subsidiary in New Jersey in 1997. In 2004, US-based Inoxcrom Inc generated sales of \$25 million, almost half its worldwide sales.

5. See "La Economía de Estado Unidos, El Sector Exterior y las Relaciones Comerciales Bilaterales" by Manuel Moreno Pinedo (*Boletín Económico de ICE*, 2839, March 21-April 3, 2005).

Exhibit 4.7 Top 100 Wines by Country or Region

Country	Number Ranked
Argentina	3
Australia	10
California	22
Chile	3
France	19
Germany	2
Hungary	1
Italy	17
New Zealand	1
Oregon	4
Portugal	1
South Africa	4
Spain	6
Washington	7

Source: The Wine Spectator, January 15, 2005.

Exhibit 4.8 Exports of Sparkling and Non-Sparkling Wines to the United States, Selected European Countries (US\$ million)

	1997	1998	1999	2000	2001	2002	2003	2004
France	756.3	853.4	1,004.2	896.7	809.3	910.6	1,116.2	1,025.6
Italy	434.7	69.6	526.8	564.2	610.2	755.8	905.1	947.7
Spain	87.9	94.2	116.9	102.6	109.5	131.5	155.0	182.4

Source: US Customs.

1. The Spanish Language, an Exportable Asset

The Spanish language is becoming big business in the United States. The 41 million people of Hispanic origin accounted for more than 14% of the total US population in 2004, and by 2050 they are forecast to reach 25% of the population (see Chapter 5). Spanish has also long been the favourite foreign language to learn in American schools and universities (see Chapter 6). The number of students learning Spanish is far more than the total studying all other foreign languages combined.

The growing interest in the Spanish language provides opportunities for such businesses as the publishing industry. Spain's publishing industry is the world's fifth-largest, and it has more than 160 subsidiaries abroad, although less than 5% of all book exports go to the United States (see Exhibit 4.9). Europe accounts for close to 60% of sales and Latin America around 33%.

Exports of books to the United States represent one-twelfth of exports of shoes, one-seventh of wine, one-sixth of olive oil, one-third of clementines and roughly the same as those of cheese (which ten years ago hardly existed). Thus, there is considerable potential in this area.

In a bid to boost book exports, the ICEX and the Federation of Spanish Publishers (FGEE) launched a 600,000 plan in 2005, the 400th anniversary of the publication of Miguel de Cervantes' *Don Quixote*, to promote the sale of books in the United States. The goal is to increase exports by 20% over the next three years. Three areas will be targeted: bookshops, the Spanish sections of libraries and Spanish-language teaching centres. Studies indicate that sales of Spanish books in the United States could grow by 6% a year, compared with 3% for the market as a whole.

Exhibit 4.9 Exports of Books to the United States (€ million)

Year	Total Exports	Exports to the US	% to US
1994	293.9	14.3	4.8
1995	292.8	15.8	5.4
1996	317.0	16.1	5.0
1997	423.6	17.9	4.2
1998	444.7	18.9	4.2
1999	436.7	21.9	5.0
2000	531.1	29.5	5.5
2001	602.8	33.5	5.5
2002	514.5	24.3	4.7
2003	469.7	22.4	4.8
2004	476.9	20.3	4.2

Source: ICEX.

The strategy, following one called “Spanish as an economic resource”, developed by the ICEX through its trade office in Miami, consists of making publishers in Spain aware of the importance and potential of the US market, helping them adapt much more to US commercial practices for the selling of books, encouraging alliances with other publishers and fostering a greater presence of publishers in US book fairs and of authors in cultural activities. Particular attention will be paid to the education departments and public libraries in California, Florida, New York, Texas and New Mexico, which have large Hispanic populations. The Cervantes Institute, the world’s largest institution dedicated to the teaching of Spanish and to the promotion of the cultures of Spanish-speaking countries, is involved in the plan. It has centres in New York, Chicago and Albuquerque.

Spain has a plethora of small, specialist publishers that manage to hold their heads above water if they have a couple of successes. Small companies –

defined as having annual sales of less than 2.4 million – account for 80% of the number of publishers in Spain.⁶ Up to 20% of published titles are printed in Catalan, Euskera (the Basque language), Galician or Valencian. For textbook specialists, however, this diversity increases print run costs and squeezes profit margins. In order to gain economies of scale, publishers may need to join forces.

2. Brand Image

A critical mass of well-known global brands would help boost Spain's exports to the United States, where the perception of the country's level of economic development and of the progress made over the past 30 years is significantly lower than in the European Union. Spain suffers much more in the United States from stereotyped images of the past – principally bulls and flamenco – that do not reflect today's reality of a modern country but affect consumers' purchasing decisions. There is nothing wrong with stereotyped images; they can often be used successfully to promote products (in Spain's case tourism, for example). The problem for Spain is that, particularly in the United States, these are almost the only images by which it is known and they can have a powerful effect on people's perceptions.

Spain has an abundance of brands, but few of them are known outside the country. According to a study by the Forum of Well-Known Spanish Brands, the best-known brands abroad are Zara (fashion), SEAT (cars), Mango (fashion), Iberia (airline), Freixenet (cava or sparkling wine), Chupa Chups (lollipops), Telefónica (telecommunications), Santander and BBVA (banking), Lladró (porcelain figurines) and Real Madrid (football club).⁷ Of these companies, Zara has stores in several US cities, Mango was considering entering the US market in 2005, Iberia has regular flights to New York, Miami and Chicago, among other cities, Freixenet and Chupa Chups have subsidiaries, BBVA acquired two small banks in 2004 and Lladró has a niche market.

Despite the success of some individual brands, only one of them is among the world's 100 Best Global Brands, drawn up every year by Interbrand and Business Week. Zara, the flagship of the textiles and clothing group Inditex, entered the list in 2005 at number 77, ahead of Levi's (96). Having just one very well-known global brand can make a big difference, as it acts as a flagship for other lesser-known brands, particularly if they are in the same sector.

6. See "Translations Help Balance the Books" by Mark Mulligan in the special report on Barcelona (*Financial Times*, April 13, 2005).

7. *La Imagen de España y Sus Marcas en el Mundo* (Foro de Marcas Renombradas Españolas, 2003).

Finland, for example, whose share of global exports is half that of Spain's at around 1%, has one brand in the top 5 – Nokia, the world's largest manufacturer of mobile phones. Although Finland's economy is one-sixth the size of Spain's as measured by GDP in purchasing power parity terms, its share of US imports is half that of Spain's 0.5%. Except for Airbus Industrie (in which Spain participates, via EADS CASA, along with France, Germany and the United Kingdom), not a single Spanish company is in the Financial Times' ranking of the most respected companies in the world. Cars and chemical products are among Spain's main exports, but they do not generate an image of an advanced country because they are produced by multinationals.

The image of a country – the “Made in Spain” factor – is an intangible asset made up of many elements that can be a competitive advantage for companies if properly developed. And there is a close relationship between brand image and country image. Spain's image has changed very much for the best since the end of the Franco dictatorship in 1975, the restoration of democracy and its insertion in the global economy. The country is the world's eighth-largest economy, one of the biggest net direct investors abroad and the 23rd in the Corruption Index drawn up by Transparency International (out of 159 countries). Spaniards' life expectancy is longer than Americans' (79 years against 77 years, a tribute to the greatly improved health system and the more nutritious food), and the country is safer (the number of murders per 100,000 citizens is much lower than in the United States). There is also a clutch of Spaniards who are well known abroad and are effectively “ambassadors”: Javier Solana, the European Union's foreign affairs chief, the golfer Severiano Ballesteros (better known by many Americans as “Seve”), the opera singer José Carreras, the film director Pedro Almodóvar, the architect Santiago Calatrava (selected to design a new train and subway station at the World Trade Centre site in New York) and the actors Antonio Banderas and Penélope Cruz, to name but a few. However, many of these aspects are not widely known in the world's biggest market.

The predominant aspects associated with Spain to a greater extent in the United States than in the European Union, according to surveys, are the low level of technological research, the poor quality of its products and its little-known brands (see Exhibit 4.10). It is true that Spain has a long way to go in R&D spending (1.1% of GDP compared with the US's 2.7%) and some of its products are of poor quality. However, this negative image also affects those companies and products where Spain can match the best. Surveys also show that the image in the US market of Spain's products and services compared to that of its competitors does not correspond to reality. The most positive aspect associated with Spain in the United States is its democracy, while in the European Union it is the level of its economic development.

Exhibit 4.10 Negative Aspects Associated with Spain in the United States and the European Union (%)

	US*	EU
Underdeveloped country	3.7	0.0
Dictatorial system	1.9	1.9
Low per capita income	3.7	2.9
Importing country	5.6	1.9
Culturally uniform	3.7	5.8
Economically unstable	0.0	0.0
Small middle class	5.6	2.9
Low level of technological research	20.2	14.4
Low level of education	0.0	4.8
Underdeveloped Social Security system	0.0	4.8
Poor-quality products	11.1	4.8
Poor quality of life	1.9	1.0
Politically unstable	0.0	2.9
Low level of industrialisation	5.6	9.6
High level of unemployment	11.1	19.2
Little-known brands	25.9	23.1
Total	100.0	100.0

(*) The US and Canada.

Source: La Imagen de España y Sus Marcas En el Mundo (Foro de Marcas Renombradas Españolas, 2003).

It is very difficult to change a country's image, particularly one that has become so deeply ingrained in the collective mind. Just as an oil tanker needs many miles to achieve its cruising speed, change direction or stop, so Spain requires a lot of time and persistence to alter the perceptions of the country held abroad. The first place to start is at home. Surveys have shown, for example, that Spaniards do not regard their country as a major car producer, and yet it is the world's seventh-largest manufacturer. If Spanish society does not believe in the "Made in Spain" brand, it is even more difficult for politicians, promotional institutions and companies to sell it abroad.

3. Imports from the United States

The United States provides less than 4% of Spain's total imports (see Exhibit 4.11). Spain ranks 31st among the United States' export partners (28th in 1991): its exports to Spain represent only 0.8% of its world trade (three times less than to France or the Netherlands).

Just as the European Union, particularly Germany and France, is increasingly Spain's main foreign trade partner (and since May 2004 there are ten more EU countries), so the United States' share of Spanish imports is declining.

Exhibit 4.11 Spain's Imports, by Geographic Area (% of total)*

European Union	64.5
Germany	16.1
France	15.2
Italy	9.0
Netherlands	4.0
Asia	14.5
Latin America	3.6
Africa	6.3
United States	3.6
Rest of world	7.5

(*) 2004 figures.

Source: Secretariat of Trade.

Exhibit 4.12 US Exports to Spain, by Main Items, 1997-2004 (US\$ million)

Trade Chapter	1997	1998	1999	2000	2001	2002	2003	2004
Total	5,544	5,465	6,132	5,811	5,811	5,226	5,935	6,640
(84) Nuclear reactors, boilers, machinery, parts	945	860	925	862	926	901	1,240	1,273
(88) Aircraft, spacecraft and parts thereof	338	196	1,197	1,292	575	522	389	637
(85) Electric machinery, sound equipment, TV equipment, parts	435	598	591	618	531	408	355	493
(90) Optic, photo, medical or surgical instruments, etc	355	401	456	487	466	422	484	491
(30) Pharmaceutical products	108	146	179	196	255	189	267	467
(87) Vehicles, except railway or tramway, and parts	315	343	319	305	216	203	254	309
All others	3,048	2,921	2,465	2,051	2,842	2,581	2,946	2,970

Source: US Customs.

CHAPTER 5

THE HISPANIC COMMUNITY

Hispanic power is on the rise in the United States, and the consequences of it could be beneficial for Spain.

The number of Hispanics – more than 41 million at the last official count – surpasses the total population of Spain.¹ The Hispanic community is growing more than three times faster than the US population as a whole; in 2003 Hispanics surpassed African Americans as the United States' largest minority group.

This community is demographically, politically and economically an increasingly important force; however, despite Spain's historic links with the United States and a long presence in the country (1513-1822, see Chapter 1), Madrid and Spanish society in general only recently began to take notice of it.

Demographically, Hispanics account for more than 14% of the total US population. Between July 1, 2003 and July 1, 2004 they were responsible for about one-half of the national population growth of 2.9 million. Of the 17% rise in the Hispanic population between 2000 and 2004, 55% was due to births in the United States and 45% to immigration (see Exhibit 5.1). Economically, Hispanics' purchasing power is more than \$700 billion, and by 2010 it will probably reach a trillion dollars (Spain's GDP reached that figure in 2005). Politically, Hispanics are gaining ground: the Senate, for the first time, has two Hispanic senators, Mel Martinez (Republican) and Ken Salazar (Democrat); there are 25 Hispanics in the House of Representatives (out of a total of 435 and compared with 21 in the first administration of George W Bush); Bush's Attorney General and Commerce Secretary are both Hispanics; Bill Richardson, the governor of New Mexico, is partly Mexican; Los Angeles, the

1. Spain's population was more than 44 million in 2005. The last (July 1, 2004) official figure for Hispanics in the United States of 41.3 million excludes the nearly 4 million inhabitants of the Free Associated State of Puerto Rico, where both Spanish and English are the official languages, and undocumented workers (more than 8 million are from Latin American countries according to the Pew Hispanic Centre).

second-largest US city (population 3.7 million), elected in May 2005 its first Hispanic mayor in more than 130 years,² the first commander of US troops in Iraq, Lieutenant General Ricardo Sanchez, was Hispanic, and the US ambassador to Spain, Eduardo Aguirre, is of Cuban origin. In order to court the Hispanic vote during election campaigns, non-Spanish speaking politicians of all colours, including George W. Bush, have to be able to muster a few words in Spanish. Robert Suro, director of the Pew Hispanic Centre, summed up well the increasing importance of the Hispanic community when he said Hispanics have gone from being a footnote to a paragraph in contemporary US history and are on their way to becoming a major chapter.

Exhibit 5.1 Fastest-Growing Population Groups in the United States

Group	Population, July 1, 2004	Increase since One Year Earlier	% Change	Share of Total US Population (%)
Hispanic	41,322,070	1,420,469	+3.6	14.1
Asian	12,068,424	401,373	+3.4	4.1
Two or more races	3,855,478	108,873	+2.9	1.3
Pacific Islander	398,161	7,466	+1.9	0.1
American Indian	2,206,748	26,104	+1.2	0.8
Black	35,963,702	386,407	+1.1	12.2
White	197,840,821	515,736	+0.3	67.4
Total	293,655,404	2,866,428	+1.0	100.0

Source: US Census Bureau.

The rise in Hispanics in the United States has been inexorable. In 1968, long before Hispanics became the largest ethnic minority, Congress authorized President Lyndon B. Johnson to proclaim a week in September as National Hispanic Heritage Week. The observance was expanded as of 1988 to a month-long celebration (Sept. 15-Oct. 15). September 15 was chosen as the starting point for the celebration because it is the anniversary of independence of five Latin American countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. In addition, Mexico and Chile celebrate their independence days on September 16 and September 18, respectively.

The Mexican writer Carlos Fuentes has called the surge in the number of Hispanics “the silent reconquest”. Mexico lost almost all of Texas, New Mexico, Arizona, California, Nevada and Utah as a result of the Texan War of

2. The last Hispanic mayor was Cristóbal Aguilar in 1872, when the population of Los Angeles was around 5,000.

Independence in 1835-36 and the Mexican-American War of 1846-48. In the 1970 census, when the term “Hispanic” was first used, there were 9.6 million. In 1990, the number (22.3 million) exceeded immigrants from all of Asia and Europe. In 2000 those from Mexico alone outnumbered all those from Europe and Canada or from Asia, Africa and the Middle East combined. The Hispanic population is forecast to rise by 67 million to 102 million between 2000 and 2050, doubling its share of the total population to 25% (see Exhibit 5.2). During the same period, the white non-Hispanic population will increase by 14.6 million to 210.3 million, the Asian population by 22.7 million to 33.4 million and the African-American population by 25.6 million to 61.4 million.

Exhibit 5.2 US Population, 2000 and 2050 (% of Total)

	2000	2050
White	72	52
Black	12	14
Hispanic	11	25
Asian	4	8
American Indian	1	1

Source: US Census Bureau.

The intellectual author of the term “Hispanic” was a Mexican, Gracia Flores-Hughes, who felt the generic name Latino was wrong or unnecessarily broad, since it included Italians. Little by little, both terms have been introduced on an equal basis in the mass media, politics and the arts. These terms, however, embrace a community that is far from the “mistaken stereotype of a monolithic world with interests that are fully shared, interchangeable and coinciding.”³ The Hispanic community is very heterogeneous: it comprises mainly Mexicans (67%), but also significant numbers from Puerto Rico, Cuba, the Dominican Republic, Central America and the Andean countries. President Vicente Fox of Mexico once said that he was the president of a country with 127 million inhabitants: 100 million in Mexico and 27 million in the United States.

The Hispanic population is concentrated primarily in a dozen of the 50 states, although there are pockets of them in almost every state (see Exhibit 5.3). According to the 2000 census, 44.2% of Hispanics lived in the West, 34.8% in the South, 7.7% in the Midwest and 13.3% in the Northeast.

3. See *Spain and the Hispanics: A Strategic Project*, by Emilio Cassinello, (Elcano Royal Institute, Working Paper 64, 2004, www.realinstitutoelcano.org/documentos/162.asp).

According to the 2000 census, the Hispanic population is very significant in some large metropolitan areas: 57% in Miami, 51% in San Antonio, 45% in Los Angeles and 25% in New York. Half of the 100 largest metropolitan areas in the United States have experienced explosive growth in their initially small Hispanic populations. For example, Atlanta's Hispanic population rose from 24,550 in the 1980 census (1% of the total) to 268,851 in the 2000 census (7%), a rise of 995%. Hispanics represent more than 14% of the total population, but close to 25% of the labour force because it is a much younger population. The median age of Hispanics is 26.9 years, compared with 35.3 years for the broader US population and around 40 for non-Hispanic whites.

Exhibit 5.3 Main US States with Hispanics (number and % of US total)*

State	Number and % of US Total	State	Number and % of US Total
Arizona	1,549,889 (3.9)	Pennsylvania	423,499 (1.0)
California	12,176,087 (30.6)	Nevada	491,376 (1.2)
Colorado	847,472 (2.1)	North Carolina	466,704 (1.1)
Connecticut	351,881 (0.87)	New Jersey	1,254,466 (3.1)
Florida	3,160,287 (7.9)	New Mexico	810,060 (2.0)
Georgia	541,123 (1.3)	New York	3,132,186 (7.8)
Massachusetts	478,350 (1.2)	Texas	7,556,869 (19.0)
Michigan	357,339 (0.9)	Utah	233,425 (0.6)
Illinois	1,726,822 (4.3)	Virginia	394,856 (0.9)

(*) Data at July 1, 2003.
Source: US Census Bureau.

There are two drivers behind the surge in this population: (1) the large number of Hispanic immigrants who arrive in the United States every year; and (2) Hispanics' fertility rates, which are far higher than those of all other ethnic minorities (2.9 children per female versus 1.8 among white, non-Hispanics).

Unlike other migrations, which came to an end (for example the European ones – Germans, Irish, English, Italians, French, Poles, Scandinavians – from the 19th century to the mid-20th century), the one from Latin America, principally Mexico, is constantly evolving. The Hispanic community consists of people of many different national origins, united by a common language but by little else. Its members are also integrated into US society to varying degrees, depending on which generation they belong to. The first generation is largely Spanish-speaking and economically the weakest; a substantial part of

the second is bilingual and two-thirds of the third generation is mainly English-speaking with medium/high income.

Harvard professor Samuel Huntington, the author of *Clash of Civilizations*, in a controversial book criticised in Hispanic circles, envisages America divided into “two peoples with two cultures and two languages” because of what he sees as Mexicans’ failure to assimilate. In his book he lists several reasons why the Mexican immigration trend is unique in American history.⁴ They include:

- Contiguous border. The United States is unique among developed nations in sharing a long, contiguous border with an economically emerging country. The closest European countries come to the emerging world is across the Strait of Gibraltar between Spain and Morocco (which, it should be said, is Europe’s equivalent of the Rio Grande). The US-Mexico border will continue to serve as a gateway from the emerging world to the developed world, as it is impossible to fully control. This means the massive immigrant inflow will continue until the economic gap between the United States and countries south of its border closes significantly.
- Linguistic concentration. Previous immigrations embraced a diversity of countries and mother tongues. Such variety facilitated assimilation. However, almost half of the immigrants arriving in the United States over the past 40 years speak a single non-English language: Spanish. The domination of the immigration flow by a single language is unprecedented. Such concentration reduces the need for assimilation.
- Regional concentration. More than 69% of the Hispanic population is concentrated in California, Nevada, New Mexico, Texas, Florida and New York. This concentration allows language usage and traditional culture to persist for long periods, even indefinitely.
- Numbers. Hispanics comprise more than half of annual immigrants into the United States. Every year over 700,000 Hispanics enter the United States (40% of them illegally). The constant supply of first-generation immigrants will ensure that the Hispanic population retains culture, language, and behavioural patterns longer than other immigrant groups.

4. See pp. 224 to 260 of *Who Are We? America’s Great Debate* by Samuel Huntington (Free Press, 2005). Huntington maintains that “the single most immediate and most serious challenge to America’s traditional identity comes from the immense and continuing immigration from Latin America, especially Mexico.”

Moreover the demographic pattern of the Hispanic population is fast changing: births in the United States are outpacing immigration as the main source of growth.⁵ This is producing an important shift in the composition of the Hispanic population with second-generation Hispanics – the US born children of immigrants – emerging as the largest component of the population (see Exhibits 5.4 and 5.5). Given the substantial differences in earnings, educational attainment, fluency in English, and attitudes between foreign-born and native-born Hispanics, this shift has significant implications. For example, between 2000 and 2020, the number of second-generation Hispanics in US schools will double and the number in the US labour force will triple. Nearly one-quarter of labour force growth over that period will come from children of Hispanic immigrants.

Exhibit 5.4 Immigrants Dominate Growth, 1970-2000

Change in Hispanic Population: 9.6 million to 35.3 million	Growth (millions)	Growth (%)	Share of Total Growth (%)
Total Hispanic population	25.69	267	100
First generation	11.5	436	45
Second generation	7.1	259	28
Third generation	7.0	167	27

Source: Pew Hispanic Centre.

Exhibit 5.5 Second Generation Dominates Growth, 2000-2020

Change in the Hispanic Population: 35.3 million to 60.4 million	Growth (millions)	Growth (%)	Share of Total Growth (%)
Total Hispanic population	25.1	71	100
First generation	6.39	45	25
Second generation	11.7	119	47
Third generation	6.94	62	28

Source: Pew Hispanic Centre.

As well as strong growth in the population and disposable personal income of Hispanics, there has been significant growth in businesses run by Hispanics (see Exhibit 5.6). The number of businesses owned by Hispanics is forecast to reach 3.2 million by 2010. More than 40% of the companies are in services,

5. See *The Rise of the Second Generation: Changing Patterns in Hispanic Population Growth*, by Roberto Suro and Jeffrey Passel (Pew Hispanic Centre, October 2003).

Exhibit 5.6 Hispanic-Owned Companies, Revenues and Employees

Survey Year	Number of Businesses	Revenue (US\$ bn)	Number of Employees
1969	100,212	3.6	126,296
1972	120,108	5.3	149,656
1977	219,355	10.4	206,054
1982	233,975	11.8	154,791
1987	422,373	24.7	264,846
1992	862,605	76.8	691,056
1997	1,199,896	186.3	1,388,746

Source: US Census Bureau.

13% in commerce, 13% in construction, 7% in transport and 5% in the financial sector.

The Hispanic community is a very complex, constantly changing population. This multifaceted community, which is light years away from the mistaken stereotype of a monolithic world, requires a multifaceted approach and not one that views the Hispanic community as homogeneous and assumes that because of the shared language Spain has privileged access to it and a natural lobby. The Hispanic community is often compared to a salad – in which each of the elements can be distinguished although they form part of a whole – as opposed to a melting pot, which dissolves the ingredients and achieves total assimilation. Spain, with its centuries of conflictive history with Latin America, has to tread very carefully if it wants to win influence and friends in the Hispanic community and forge links that over the long term could bear fruit, both politically and business-wise.

Spain is keen to forge closer links with the Hispanic market, but it is hampered in its efforts by the country's low profile in the United States and by the comparatively small presence of Spanish companies, although this, too, is starting to change. Spain's exports to the United States account for less than 4% of the total (see Chapter 4) and its stock of direct investment in the country on a historical cost basis stood at \$5.6 billion in 2004, compared with \$148.2 billion for France, \$163.3 billion for Germany and \$21.5 billion for tiny Ireland (see Chapter 3).

The Socialists under Felipe González, who governed from 1983 to 1996, established some contacts with leading representatives of the Hispanic community, particularly in the lead-up to the fifth centenary of the discovery of the Americas in 1992. This led to the publication of *The Handbook of Hispanic Cultures* in the United States, published in 1993 and 1994. It was the release, however, of the 2000 census, which was the first to recognise the

demographic, sociological, cultural, political and economic potential of the until then less-than-defined Hispanic community, that really awakened the government's interest. This census also coincided with the rapid emergence in Spain of a large community of immigrants from Latin America (1.45 million at the beginning of 2005, compared with a total of 165,000 foreign residents of all nationalities in Spain in 1976).

José María Aznar, Spain's former prime minister (1996-2004), visited several Hispanic states during his frequent visits to the United States but took a partisan approach towards the community. For example, he offered to campaign for the Republicans. This was a risky strategy, particularly as Hispanics tend to vote for the Democrats (John Kerry got 53% of the Hispanic vote in the November 2004 election), and not one that Spain's ruling Socialists are following, although the Democrats are the natural allies of the Socialists. Of the 21.5 million registered Hispanic voters, only around seven million of them voted.

There are several areas where Spain can work with the Hispanic community, most notably establishing better institutional relations with bodies representing Hispanics, such as the New America Alliance, the Greater Miami Chamber of Commerce and the Hispanic Business Round Table, jointly working on Spanish-language projects and finding ways for Spanish companies to participate in Hispanic companies, particularly in the field of culture (cinema, TV, music, etc). But it should always be borne in mind that, as Emilio Cassinello, former Consul General in New York, points out, "approaching the Hispanic community means approaching the United States. We must always keep in mind that Hispanics and the US cannot be analysed as two dissociable entities." Relationships can, and indeed are, being developed with Hispanic political leaders from both the Republican and Democratic parties (for example, with the two Hispanic senators, Republican Mel Martinez and Democrat Ken Salazar), but this has to be done without becoming involved in US internal politics.

A key player on both sides of the Atlantic is the United States-Spain Council, which was created in 1995 during the third Socialist government of Felipe González to encourage understanding of shared interests and promote constructive relations and cooperation between the Spanish and American governments on a variety of issues, including trade intellectual property rights and education. The Council, whose US president is Mel Martinez, meets once a year, alternating between Spain and the United States. Its members include government officials, members of the Spanish parliament and the US Senate, businessmen and academics. It is a useful talking shop and forum for networking and could act as a kind of lobby.

In 1998, the Council started a programme for young Hispanic leaders in conjunction with the Ortega y Gasset Foundation and the Menéndez Pelayo International University. Since then, more than 100 Hispanics have been selected and visited Spain and they have started to organise themselves in the United States as a group with specific proposals about how to develop stronger relations. These include:

- Alliances between the main cultural institutions of both communities.
- In order to strengthen the Spanish language in the United States, the Cervantes Institute should have a minimum of ten centres, beginning with those cities with the largest Hispanic populations. These centres would have special courses for those who speak it but do not write it well, as they learned the language from their parents but not formally.
- US school textbooks should be changed in order to more faithfully reflect the contribution that Spain and the Hispanic community have made to the United States since its independence.
- Promote Spanish investment in Hispanic companies and Hispanic investment in Spanish companies.
- Create a venture capital vehicle for Hispanic entrepreneurs.
- Explore the possibility of a co-production treaty between Spain and the National Association of Latino Independent Producers to promote the development, financing and production of films and TV programmes.
- Foster greater trade so that Spain will be the gateway to Europe for the products of Hispanic companies and Hispanic companies in the United States for Spain.

There is no bursaries programme in Spain specifically aimed at Hispanics, something that would also help the two sides to better understand one another. The Carolina Foundation's bursaries are preferentially aimed at students from Latin America as opposed to students of Latin American origin who live in the United States. The MAEC-AECI grants offered by the Spanish Ministry of Foreign Affairs have so far attracted a minimal number of Hispanics. One proposal is to create a kind of British Rhodes Scholarship scheme, which would have to be open to all US students in order to avoid

antagonising non-Hispanic communities but could require a certain level of proficiency in Spanish, which would tend to favour Hispanic students.

One of the main needs of the Hispanic community is better access to capital to start businesses. Spanish banks are well placed to do this as they are very solvent and understand the Hispanic business culture. Moreover, the two largest ones, Santander and BBVA, have invested heavily in acquiring banks in Latin America, particularly in Mexico. BBVA has two small banks in the United States: Valley Bank of California and Laredo National Bancshares (LNB) of Texas (see Chapter 3). A significant factor behind the purchases of these two banks was BBVA's desire to build on its large market share of the remittances business and begin to offer basic products to Hispanics.

In 2004, BBVA helped to launch the Palladium Equity Partners Fund III, the largest private equity fund aimed at the Hispanic market. Other leading investors are the California Public Employees' Retirement System, New York State and Local Retirement System and the Los Angeles Fire and Police Pension Fund. The fund made its first acquisition in June 2005 when it bought Taco Bueno, a Mexican fast food chain with 136 restaurants in Texas, Oklahoma and Kansas. The investment opportunities identified by Palladium are:

- Sectors which capture a higher percentage of Hispanic money, such as consumption and entertainment.
- Sectors with a lower penetration within the Hispanic community, but in which higher growth rates are expected, such as financial services.
- Companies which cover certain needs of Hispanics, who, for cultural or economic reasons, remain left out, such as those related to the healthcare and food sectors.
- Products traditionally considered Hispanic that are extending to American society in general.

Another promising area for Spain is the business related to the growing interest in the Spanish language in the United States (see Chapter 6). The United States is the fifth-largest Spanish-speaking country in the world, after Mexico, Colombia, Spain and Argentina (the 2000 census identified 28.1 million who spoke Spanish regularly, see Exhibit 5.7). Spanish is the most commonly taught foreign language in American schools and universities, providing opportunities for Spain's publishers (see Chapter 4). There has also

been a take-off in the number of Spanish newspapers, radio stations and TV stations. The leading Spanish-language media company serving the Hispanic community is Univisión, which includes TeleFutura and Galavisión. The number of Spanish newspapers roughly doubled between 1990 and 2004 to just over 700 and their ad revenue rose eightfold between 1990 and 2003 to more than \$800 million. Recoletos, Spain's second-largest media group, helped to set up a chain of Spanish-language newspapers in Texas in 2004 and then sold its stake in May 2005, while Grupo Prisa, Spain's largest multimedia group, has radio stations and sells textbooks to learn Spanish and English. Caracol Miami is the leading radio station among Hispanic audiences in Miami, and in January 2005 it received permission to boost its broadcasting power to reach audiences in southern Florida. In April, Prisa acquired the 690AM (XTRA) radio station, which broadcasts in Los Angeles and southern California. The enormous interest in news from Spain and Latin America among the Hispanic community is underscored by the spectacular growth in the Hispanic news service of Efe, Spain's state-owned news agency, which earns more in the United States than from the whole of Latin America.

Exhibit 5.7 Spanish-Speaking Population of Countries (millions)*

Mexico	103.7
Colombia	45.3
Spain	41.3
Argentina	38.2
United States	28.0

(*) 2004 figures.
Source: Secretariat of Trade.

The largest number of Spanish businesses is in the state of Florida, whose largest city, Miami, is called the “capital of Latin America”, as it is the city of reference for Latin American business and finance and where one in every six people speak Spanish at home. Florida, whose Hispanics are predominantly Cuban, accounts for around 10% of the 100,000 Spaniards who live in the United States (0.3% of the total population). Between 2000 and 2004, the number of Spanish businesses in Florida rose from 200 to more than 350 (more than in China), and two-way trade amounted to \$1.2 billion, making Spain Florida's 20th largest trading partner and the fifth among European countries (see Exhibit 5.8). One factor in Spain's relative success in Florida, albeit an intangible one, is the greater importance (compared to Anglos) that both Spaniards and Hispanics attach to personally getting to know their business

clients before closing deals. Although this tradition is changing, one should not underestimate its importance.

Spain's main exports to Florida are ceramics, chemical products, construction materials, shoes and machinery. The Club de Empresas Exportadoras Españolas (Spanish Exporters' Club) has established close links with Enterprise Florida, the public-private partnership responsible for leading Florida's state-wide economic development efforts, as well as with other organisations in predominantly Hispanic areas, such as the Latin Business Association of Los Angeles.

Exhibit 5.8 Florida's Top Merchandise Trading Partners (US\$ millions)

Rank	Country	2002	2003	2004
1.	Brazil	8,876	8,602	10,481
2.	Japan	5,214	5,153	5,333
3.	Germany	3,775	4,278	4,537
4.	Dominican Republic	4,444	4,435	4,308
10.	Mexico	2,286	2,362	2,461
12.	United Kingdom	2,051	1,880	2,145
16.	Italy	1,439	1,342	1,381
17.	France	1,175	1,310	1,282
20.	Spain	730	1,293	1,115

Source: Enterprise Florida Inc.

Companies in Miami include Mapfre/Amstar (insurance, reinsurance, property development and other related services), Indra (Spain's leading information technology company), Grifols America (the distribution affiliate of Probitas Pharma, which specializes in the healthcare-pharmaceutical sector) and Altadis USA (which sells more than two billion cigars a year and has a 40% market share in the United States). Spanish banks are also well represented in Miami (Santander, BBVA, Banco Atlántico, Banco Sabadell and Bancaja, among others). The port of Miami is the sixth-largest in the United States, and close to 20% of the containers that unload there originate from Spanish ports.

Exhibit 5.9 Ten States with the Highest Estimated Hispanic Buying Power*

State	Buying Power (US\$ bn)
California	198.5
Texas	119.3
Florida	63.7
New York	56.6
New Jersey	26.1
Illinois	31.3
Arizona	20.9
Colorado	15.0
New Mexico	13.7
Georgia	10.9

(* Buying power is disposable personal income.

Source: Selig Centre for Economic Growth, Terry College of Business, University of Georgia, August 2004.

Florida offers the best business prospects so far for Spain, but it is not the state with the highest Hispanic buying power. This is California, with three times higher buying power (see Exhibit 5.9). Although Hispanic buying power is concentrated in a few states, many more are beginning to feel the impact of fast-rising Hispanic populations and are thus potential markets (see Exhibit 5.10). The scope to develop all aspects of the relationship with Hispanics is thus enormous.

Exhibit 5.10 Fastest-Growing Hispanic Consumer Markets

State	Change in Hispanic Buying Power, 1990-2004 (%)
North Carolina	949
Arkansas	925
Georgia	709
Tennessee	664
Nevada	558
Minnesota	540
Alabama	515
Nebraska	472
South Carolina	456
Kentucky	453

Source: Selig Centre for Economic Growth, Terry College of Business, University of Georgia, August 2004.

CHAPTER 6

CULTURAL RELATIONS, IMAGE AND ANTI-AMERICANISM

The growing importance of the Hispanic community in the United States and the concomitant rise in the learning of Spanish by non-Hispanics are engendering a substantial flow of cultural and educational relations and exchanges. Spanish is the most commonly taught foreign language in US secondary schools and universities, Spain is the third most popular country in the world after the United Kingdom and Italy for American students studying abroad, and the Fulbright programme, started in Spain in 1958, is today the third-largest in the world after Germany and Japan in terms of the budget allocated and the number of scholars going to the United States and Spain every year.

Nevertheless, given these factors, as well as the shared history – Spain played a decisive role in the American Revolution (1775-1783) by fighting against Britain (see Chapter 1) –, it is striking how few Spanish institutions there are in the United States promoting Spanish language and culture, let alone countering the one-sided version of foreign participation in the Revolution. American schoolchildren learn about the Frenchman Gilbert du Montier, the Marquis of Lafayette, and how he fought in the Revolution against the British, but little or nothing about the Spaniard Bernardo de Gálvez, the governor of Louisiana, to name just one, whose troops seriously damaged British naval power in the Caribbean and the Gulf of Mexico and thus indirectly aided the rebel cause. In July 2002, 168 years after he died, the US Congress made Lafayette, an honorary citizen.¹ He is only one of six people to be given this distinction (another was Winston Churchill). All Gálvez has is a city in Texas named after him (Galveston). Gálvez has not been given his due, but other Spaniards have been rapturously received, notably the film director

1. Had this been left any longer it might well have not happened. In 2003, the French and US governments fell out in a big way over Iraq, whose American-led invasion President Chirac refused to support.

Pedro Almodóvar, who has won two Oscars and whose “Talk To Her” (2002) was named by *Time* magazine the best film of the decade so far. Another rising star in the United States is the tennis player Rafael Nadal (19), who won the 2005 French Open in his first Grand Slam final. The United States Tennis Association hired Nadal in 2005 to promote its tournaments, culminating in the US Open.

The Spanish cultural presence in the United States basically consists of the Cervantes Institute, the state-owned institution founded in 1991 for the teaching of Spanish abroad and promoting knowledge of the cultures of Spanish-speaking countries, which has centres in New York, Albuquerque and Chicago. All the flags of Latin American nations, Puerto Rico and Spain are on show in the entrance to these centres and not just the Spanish flag which would lead to accusations of cultural imperialism. The Cervantes Institute offers a Spanish diploma in foreign language which is valid worldwide (like the TOFEL certificate in English or the DELF in French).

New York has two private institutions: the Queen Sofía Spanish Institute (established in 1954) and The Hispanic Society of America (founded in 1904 by Archer Milton Huntington). The Meadows Museum in Dallas houses one of the largest and most comprehensive collections of Spanish art outside of Spain, with works dating from the 10th to the 20th century. It includes paintings by El Greco, Velázquez, Ribera, Murillo, Goya, Miró, and Picasso. The museum's collection of Spanish art and the galleries for its display were a gift to Southern Methodist University from Algor Hurtle Meadows (1899-1978), a prominent Dallas businessman and founder of the General American Oil Company of Texas. During the 1950s business took Meadows frequently to Madrid, where repeated visits to the Prado Museum inspired what would become a lasting interest in the art of Spain's Golden Age. There is nothing in Washington DC, the seat of government, apart from a cultural attaché. There is a proposal to turn the former residence of the Spanish ambassador into a Cervantes Institute but it is unlikely to happen as the cost is high and there are other competing cities.²

Spain's Patrimonio Nacional, which administers the properties formerly vested in the Crown but now belonging to the Spanish State, began to collaborate with US museums in 2004, when it loaned works to the Seattle Art Museum for the “Spain in the Age of Exploration” exhibition. Patrimonio was keen to do this because the Northwest is one of the places in the United States where Spain's historical legacy still asserts itself in place names. Under a

2. A Cervantes Institute in Washington would be an ideal location for Josef Perovani's full-length portrait of George Washington, which was painted in 1796 and immediately shipped to Manuel Godoy, Spain's powerful Secretary of State. The portrait remained in the back rooms of the Royal Academy of Fine Arts in Madrid throughout the 19th century and was not mentioned in Spanish historical art literature until 1918. See *The Portrait of George Washington by Josef Perovani*, by Isadora Rose-de Viejo (Ediciones El Viso, 1998).

Spanish flag, a Greek sailor named Valerianos de Cephalonia, also known as Juan de Fuca, sailed up the Puget Sound seeking the Northwest Passage. As a result of his 1592 voyage, there are places called Fidalgo, López, Juan de Fuca, Guemes, Rosario and Padilla. The exhibition charted the evolution of Spanish attitudes towards knowledge, exploration and faith during three centuries of Spain's golden age, beginning with Columbus' first voyage in 1492 and ending with the signing of the Adams-Onís Treaty in 1819, which ceded Florida and the Northwest Territories to the United States.

The Cervantes Institute starts with a big advantage in the United States: of the roughly 190 languages spoken by the children of immigrants in schools in areas such as New York, only Spanish is as universal as English. But the Cervantes Institute has a global budget of only 60 million and 42 centres, compared with the French Institute and Alliance Française, which has a budget of more than 500 million and 430 centres around the world, even though the French language is in decline (180 million native speakers worldwide compared with more than 350 million Spanish speakers). The British Council has 20,000 students in Spain alone, compared with 93,000 for the Cervantes Institute worldwide (6,000 of them in the United States).

The general lack of resources is hampering Spain's efforts. According to Emilio Cassinello, a former Consul General in New York, "Given the size of the United States, the operational capacity of official institutions with cultural missions is painfully insignificant".³ Spain has nine consulates in the United States, almost all in cities or states with a large Hispanic presence: New York, Washington DC, Boston, Miami, Houston, New Orleans, Chicago, Los Angeles and San Francisco, plus San Juan (Puerto Rico, where both Spanish and English are the official languages). "Although this scarcity is a structural fault of the Foreign Service, it is even more scandalous in the US – the leader in practically all scientific, technological and cultural fields." For example, New York has to make do with \$50,000 a year as its cultural budget and Chicago around \$3,000. Miami (both Spanish and English are official languages in Miami-Dade county) gets \$300,000.

The United States has a long history of Hispanism, which is generally acknowledged to have started towards the end of the eighteenth century, when a combination of hemispheric politics and history raised American awareness of Spain.⁴ In 1779, Thomas Jefferson, who drew up the Declaration of

3. See *Spain and the Hispanics: A Strategic Project* by Emilio Cassinello, (Elcano Royal Institute, Working Paper 64, 2004, www.realinstitutoelcano.org/documentos/163.asp).

4. Before that, Garrat Noel published a textbook for the study of Spanish in 1751. The only available English translation of *Don Quixote* was that completed in 1742 by the British scholar Charles Jarvis. This brief history of Hispanism in the United States draws on *Spain in America, The Origins of Hispanism in the United States*, edited by Richard Kagan (University of Illinois Press, 2002).

Independence and was the third US president (1801-09), introduced modern languages, including Spanish, into the curriculum of the College of William and Mary. Jefferson urged his nephew who was travelling in Europe to visit Lisbon and Madrid because “knowledge of their language, manners and situation, might eventually and even probably become more useful to yourself and country than that of any other place you will have seen. The womb of time is big with events to take place between us and them, and a little knowledge of them will give you great advantage over those who have none at all.” He did not elaborate on what was the “advantage” but it is assumed he was referring to trade with Spain’s and Portugal’s American colonies and the day when they would become independent and move closer to the US sphere of influence – in other words, self-interest.⁵

It was Washington Irving (1783-1859) who brought Spain to the general public’s attention; his Romantic image of the country (bullfights, flamenco and gypsies) persists today. For Irving “the most miserable inn is as full of adventure as an enchanted castle” and “poverty is no disgrace. It sits upon the Spaniard with a grandiose style, like his ragged cloak. He is an hidalgo even when in rags.” As a result of his two stays in Spain (in 1842-46 he was envoy extraordinary and minister plenipotentiary), Irving wrote *A History of the Life and Voyages of Christopher Columbus, The Conquest of Granada and Alhambra*, which enjoyed a huge success (116 editions and reprintings in its first 80 years). Better known today as *Legends of the Alhambra*, it is still in print. His books were standard texts in US universities throughout the nineteenth century (Harvard University established the Smith Professorship of French and Spanish in 1817).

Another influential American Hispanist was William Hickling Prescott (1796-1859), who wrote *The History of the Reign of Ferdinand and Isabella* (1837), followed by books on the Spanish conquest of Mexico (1843) and Peru (1847) and a biography of Philip II (1855). Prescott juxtaposed the new (the United States) and the old (Spain) and focused on Spain as a failed nation that had allowed progress to slip through its hands.⁶ The British Hispanist Martin

5. The start of World War I on August 5, 1914, and the passage that very same day of the first US cargo-carrying ship through the Panama Canal, which reduced Europe’s trade ties with Latin America and boosted the US’s, produced a surge in the teaching of Spanish. A Spaniard who witnessed the wartime expansion of Spanish wrote to his colleagues in Spain: “Since 1916 the study of Spanish has grown with such speed and in such proportion that it cannot be measured by the criteria we are accustomed to in Europe.” Quoted in “Latin America and Spain in US Hispanism” by James Fernández in *Spain in America, The Origins of Hispanism in the United States*, edited by Richard Kagan (University of Illinois Press, 2002).

6. The contemporary American Hispanist Richard Kagan studied this and came up with what he calls “Prescott’s paradigm”, defined as “an understanding of Spain as America’s antithesis.” “America was the future – republican, enterprising, rational; while Spain – monarchical, indolent, fanatic – represented the past.” (“Prescott’s Paradigm: American Historical Scholarship and the Decline of Spain”, *American Historical Review* 101, April 1996 by Richard Kagan).

Exhibit 6.1 Foreign Language Enrolments in State Secondary Schools as a Percentage of the Total*

Language	% of Total
Spanish	68.7
French	18.3
German	4.8
Latin	2.7
Spanish for native speakers	2.1
Italian	1.2
Japanese	0.8
Russian	0.2
Other languages	1.3

(*) 2000, latest available year.

Source: American Council on the Teaching of Foreign Languages.

Hume (1847-1910) published an article shortly before his death about the “instinctive mutual attraction” of Spain and the United States which helps to explain the fascination of Spain. “A strenuous people find in the repose of the Spaniards an antidote for their restlessness; a nation of businessmen are brought into contact with a people, the keynote of whose character is an almost disdainful regard for laborious and calculated gain; on the one hand, keen acquisitiveness, on the other a languid magnanimity incite in their opposites the wondering admiration that engenders a kind of humorous and tolerant affection on both sides.” That may have been true a century ago, but certainly not today, although the image still persists.

The teaching of Spanish is growing every year. According to the American Council on the Teaching of Foreign Languages, more than 4 million students in state secondary schools are learning Spanish. They accounted for close to 70% of all language enrolments in grades 7-12 (see Exhibit 6.1). The number of Americans learning Spanish in institutions of higher education is more than the total studying all other languages, according to the Modern Languages Association. Most of these students are not Hispanics. Just as the growth in the number of people studying Spanish at university is not solely due to the rise in the Hispanic population, although it is a major factor, so the teaching of Latin, German and French, the main languages studied in the past, was not due to the demographic weight of their speakers in the United States. Of the 1.39 million enrolments in 2002 (latest year available), 53.4% were for Spanish, 14.4% for French and 6.5% for German (see Exhibit 6.2). The distribution of these

students very much reflects the geography of the Hispanic community, with the largest number in California, followed by Texas and New York. Spanish has been the most popular foreign language in US universities since the 1970s, long before the Hispanic community became the largest ethnic minority. In 1960, 30% of enrolments were for Spanish and in 1980 40%. But it was not until the 1990s that PhDs in Spanish language and literature were more numerous than for French (in the 1960s for German).

Exhibit 6.2 Foreign Language Enrolments in US Institutions of Higher Education*

Language	1998	2002
Spanish	656,590	746,267
French	199,064	201,979
German	89,020	91,100
Italian	49,287	63,899
American Sign Language	11,420	60,781
Japanese	43,141	52,238
Chinese	28,456	34,153
Latin	26,145	29,841
Russian	23,791	23,921
Ancient Greek	16,402	20,376
Biblical Hebrew	9,099	14,183
Arabic	5,505	10,584
Modern Hebrew	6,734	8,619
Portuguese	6,926	8,385
Korean	4,479	5,211
Other languages	17,771	25,716
Total	1,193,830	1,397,253

(*) Data for college and university undergraduates in two-year and four-year institutions, and for graduate students.
Source: Modern Language Association.

Exhibit 6.3. American University Students Abroad, Top 10 Countries*

Country	Number
United Kingdom	31,706
Italy	18,936
Spain	18,865
France	13,080
Australia	10,691
Mexico	8,775
Germany	5,587
Ireland	4,892
Costa Rica	4,296
Japan	3,457

(*) 2000, latest available year.
Source: American Council on the Teaching of Foreign Languages.

Exhibit 6.4. International Students in the United States, Top 10 European Countries*

Country	Number
Turkey	11,398
Germany	8,745
United Kingdom	8,439
France	6,818
Russia	5,532
Bulgaria	3,734
Spain	3,631
Romania	3,320
Italy	3,308
Sweden	3,116
Poland	2,913

(*) 2003/2004 academic year.

Source: Institute of International Education.

English is still the language that opens the door to the American Dream, but less so than in the past. The growth in the Hispanic community and the increasing trade and investment ties between the United States and Latin America – the North American Free Trade Agreement (NAFTA) between the United States, Mexico and Canada began in 1994, the Central American Free Trade Agreement (CAFTA) was approved in 2005 and a Free Trade Area of the Americas (FTAA) could be a reality one day – make Spanish, or rather English and Spanish, increasingly important. Speaking Spanish in the United States long ago ceased to be done just in the privacy of the home and has spread into commerce, the media and public services. ABC, one of the big four television networks in the United States, announced in September 2005 that it would dub or subtitle all of its prime-time shows into Spanish.

The surge in the study of Spanish, which is the natural consequence of the emergence of multiculturalism into US society, has led to the rise in Spanglish. Ilan Stavans, the main academic who has studied and made a career out of it, defines Spanglish as “the verbal encounter between Anglo and Hispano civilizations.”⁷ Spanglish, a hybrid of English and Spanish, is a widely used and understood argot, which varies a lot from area to area. The Spanglish spoken in New York is very different from that in Los Angeles. It is heavily criticised by purists, led, naturally, by the Spanish Royal Academy of Language (founded in 1713). Stavans produced a dictionary of Spanglish terms and a Spanglish version of the first chapter of Cervantes’ *Don Quixote*, which

7. See *Spanglish, The Making of a New American Language*, by Ilan Stavans (HarperCollins, 2003).

begins “In un placete de La Mancha of which nombre no quiero remembrearme, vivía, not so long ago, uno de esos gentlemen who always tienen una lanza in the rack, una buckler antigua, a skinny caballo y un greyhound para el chase.”

Spanglish is as much of a threat to the Spanish language as it is to the English language. In order to become a nationwide “new American” language, a common Spanglish would have to be forged from the different versions and taught. Ambitious immigrants, in particular, want their children to be properly bilingual because they know it increases their chances of earning more. Language is also closely related to identity, and the Hispanic community is becoming more and more assertive. Significantly, there is a growing number of immigrants who either abandoned Spanish as part of the process of assimilation (usually, but not always, first-generation immigrants) or never spoke it in the first place (second or third generation) and who want to recover or learn the language. For example, it is estimated there are 120,000 Hispanics learning Spanish in Miami, a small number when measured against the whole community but indicative of future trends countering Spanglish. The Cervantes Institute in New York recently started classes for these Hispanics. New Mexico, whose governor is an Hispanic, is so far the only state where both English and Spanish are the official languages. The trend over the long term, given the empowerment of Hispanics, will be towards bilingual states.⁸

Meanwhile, educational exchanges between Spain and the United States have grown enormously, particularly over the past 25 years. They started in 1907 with the creation of the Junta de Ampliación de Estudios (Study Council Abroad) to promote university exchanges. Spain was the first European country to create such an institution and it coincided with what is called the Silver Age of Spanish culture (in allusion to the Golden Age of the Spanish Baroque period). Some of these intellectuals, such as Claudio Sánchez-Albornoz, Francisco Ayala, Américo Castro and Jorge Guillén went into exile because of the Spanish Civil War (1936-39) and taught at US universities. These people and others left a rich heritage. The Rockefeller Foundation began to promote exchanges in the 1920s and it also financed the establishment of the Physics Institute in Madrid, whose most famous visitor was Albert Einstein.

The 1953 military and economic agreements (see Chapter 1) cemented bilateral relations between Spain and the United States and led in 1958 to the Cultural and Educational Agreement between the two countries. This enabled the country to join the Fulbright programme (started in 1946 by Senator J.

8. Louisiana, as a result of its French colonial heritage, has no declared official language, but its law recognises both English and French.

William Fulbright), which guaranteed Spaniards during the Franco dictatorship (1939-75) an impartial selection process and Americans the necessary protection to move freely through the maze of archives and libraries throughout the country. The Commission Board in Spain, comprising Spaniards and Americans, remains an independent policy-making body and completely free of political interference. Most grantees from Spain in the first decade of the programme were in the fields of the physical and social sciences. While Spaniards who went to the United States as “Fulbrighters” found a democratic and ethnically diverse society, the first Americans who came to Spain, such as the distinguished historians Gabriel Jackson and Edward Malefakis, found a very poor country with no political freedom.

As a result of the 1976 Treaty of Friendship, Defence and Cooperation between the United States and Spain, one year after the death of General Franco, more money was made available to Spain’s Fulbright programme, and in the 1980s two Spanish banks began to sponsor a large number of grants (later followed by other companies). The Socialists, who ruled Spain from 1983 to 1996, had several “Fulbrighters”, notably Javier Solana, who was three times a minister before becoming Nato’s Secretary General (1995-99) and since 1999 European Union Foreign Policy Chief, as did the centre-right Popular Party (1996-2004), among them Pilar del Castillo, the education minister. Other notable “Fulbrighters” are Pascual Maragall, the Socialist prime minister of the region of Catalonia, José Borrell, the Socialist president of the European Parliament, and Miguel Sebastián, the chief economic advisor to Prime Minister José Luis Rodríguez Zapatero. According to María Jesús Pablos, the executive director of the Fulbright programme in Spain, “a strong case can be made that the changes that have taken place in Spain over the last 30 years were influenced, if not shaped, by the efforts of those who studied in the United States, the majority of whom had Fulbright grants.”

More than 7,000 grants have been awarded in 46 years, 70% of them to Spaniards (see Exhibit 6.5). The Commission awards around 100 grants a year to Spaniards and an average of 60 for US citizens. The main sponsor is Spain’s Ministry of Education, followed by the US Department of State and the Ministry of Foreign Affairs. Private sponsorship comprises 20% of the annual budget, with 85% of this amount being spent directly on grants. Spain’s programme today is the third-largest in the world after Germany and Japan in terms of the budget allocated and the number of scholars going to the United States every year.

Exhibit 6.5. Fulbright Grants in Europe by Selected Countries, 1949-2003

Country	Total US and Foreign
Austria	6,440
Belgium	3,961
France	18,511
Germany	42,555
Italy	13,094
Netherlands	5,508
Portugal	3,284
Spain*	7,244
Turkey	4,247
United Kingdom	26,350

(*) 1959-2003.

Source: J. William Fulbright Foreign Scholarship Board.

Other institutions have created permanent links with US universities, Two private sector sponsors funded chairs at Georgetown University and the University of New Mexico, and the Complutense University of Madrid established a permanent centre at Harvard University. New York University created the King Juan Carlos I of Spain Centre in 1997, probably the leading centre in the United States for the study of Spain and Latin America, which is funded by various Spanish and American companies, and Harvard created an Iberian Study Centre within the Minda de Gunzburg Centre for European Studies.

The Culture Ministry began a programme in 1983 to foment the spread of Spanish culture in US universities, including funds for the translation of classic literature into English, promoting films, visits by teachers and writers and research on little explored areas in the sphere of Hispanism. In the first 20 years of the programme the ministry contributed around \$4.6 million.

Internet is also playing an increasingly important role in promoting Spanish culture and linking Spanish and American university students. The Miguel Cervantes Virtual Library (www.cervantesvirtual.com), created in 1999 by the University of Alicante, with the sponsorship of Grupo Santander and the Marcelino Botín Foundation, has the largest on-line collection of Hispanic works and is the most visited Spanish literary website. The central core of the library are the institutional and thematic portals. The former are the result of cooperation agreements with some of Spain's and Latin America's main institutions, such as the Royal Spanish Academy and the National Libraries of Spain, Brazil, Chile and Argentina. The thematic portals cover literature, history, geography and cinema. Universia (www.universia.net), created in 2000 by the Conference of Spanish Universities, the Higher Council of Scientific Research, 32 Spanish universities and Grupo Santander, is the

world's largest university network, but it only operates in Latin America, Spain and Portugal (more than 800 universities from ten countries). The inclusion of American universities and colleges in Universia would be a good way to reach the large number of students studying Spanish.

American and Spanish films are also increasingly popular in each other's country. Only recently, however, have Spanish films made a mark in the United States due, to a large extent, to the Oscars won by Pedro Almodóvar (in 1999 for "All About My Mother" and in 2002 for "Talk to Her") and Alejandro Amenábar ("The Sea Inside", 2004), which have sparked interest in Spanish cinema as a whole. American films have always been highly popular in Spain. According to Spain's Academy of Arts and Film Sciences, 121.7 million people saw American films in 2004, up from 115.7 million in 2003, compared with 18.7 million for Spanish films (21.7 million in 2003). The US share of films and series shown on Spanish TV is also high: close to 70% and 49%, respectively, in 2003 (latest year available), compared with 11.5% and 18.6% for Spanish films and series.

Films have always been a powerful medium for moulding images, particularly among the young, and American ones are, generally speaking, more violent than European ones. Their impact on creating a negative image of the United States may be larger because Spaniards are among the most assiduous movie-goers in Europe, and American films shown in Spain are increasingly gaining ground over Spanish movies.

Image and anti-Americanism

The prevailing image of Spain in the United States, if it is known at all, is still one associated with bullfighting and flamenco, while that of the United States in Spain is not as positive as it is in other European countries and depends to some extent on a person's generation and political background. History, as one would expect, has played a significant role in forging the distorted perceptions that each country has of one another.

The reduction of the rich history and culture of Spain to the level of exotic folklore can be traced back in the United States to the works of Washington Irving. While Spain has changed beyond recognition, particularly over the last

9. According to Jonathan Brown, a distinguished professor of art history at New York University, who came to Spain in the early 1960s as a Fulbright scholar, "The creators of the American image of Spain largely agreed that Spain has been frozen in time by its slow pace of modernization. Spain continued to live in the past even as the United States was moving at full speed into the future. Spain, where the past seemed alive and the present mostly absent (especially in the rural areas), provided an escape where romantic fantasies could be brought to life." See his foreword to *Spain in America, The Origins of Hispanism in the United States*, edited by Richard Kagan (University of Illinois Press, 2002).

30 years, the stereotyped image remains a predominant one. But this romantic vision is not exclusively American: it had been created in France in the 19th century by writers and travellers such as Théophile Gautier.⁹ One reason why the image persists is that Spain, in general, has not done much to counter it. Posters using such or similar images have been good for attracting tourists.

The two most salient factors in the last 100 years or so that have shaped the image of the United States in Spanish eyes are the 1898 Spanish-American war, which led to the loss of Cuba (known in Spain as “the disaster”), and the 1953 military agreement during the dictatorship of General Franco, under which the United States established bases in Spain that are still in place. The loss of Cuba, along with Puerto Rico and the Philippines, Spain’s last colonies, was one element that made Spaniards on the nationalistic and authoritarian right very resentful of the United States. The United States was the enemy for Spaniards during the 19th century; it is the only country with whom Spain has been at war, apart from some colonial strife in Morocco, since the 1830 Holy Alliance invasion. This is something that sets Spain apart from all other European countries.

Washington’s support for the Franco regime (1939-75) made Spanish democrats in general and the Marxist left, in particular, “anti-American” (see Chapter 1)¹⁰. Instead of GIs liberating Spaniards from an authoritarian yoke after World War II, the 1953 Madrid Pact consolidated the dictatorship. This produced the curious situation whereby Francoists were seen as pro-American, although they hated the democratic form of government in the United States and its liberal values. Subsequently, after the death of Franco in 1975, Washington did little to change perceptions when the Secretary of State, Alexander Haig, a former general, called the failed 1981 coup by reactionary elements wishing to turn back the clock “a Spanish internal affair.” This unfortunate remark confirmed the belief among democrats as a whole that the US government placed little importance on the fate of Spanish democracy and that it still hankered after the cosy relationship it had during the Franco regime.

While anti-Americanism on the right of the Spanish political spectrum has basically disappeared, it remains quite strong in the country as a whole, depending on what we mean by the concept. Public-opinion polls showed that opposition to the US-led invasion of Iraq in 2003 ran higher in Spain than in any other European country, at over 90%. But should this be interpreted solely

10. I use the term “anti-Americanism” loosely in this chapter, as it means different things to different people, including anti-globalisation, anti-US hegemony/unilateralism in the world, and even envy of US success. In the case of Spain, a distinction should be made between the conservative anti-Americanism of the Franco regime, which rejected US democratic, tolerant and free market values, nationalist anti-Americanism, as a result of the 1953 bilateral agreement, which cut across classes and political parties, and left-wing anti-Americanism, stemming from US support for dictators in Latin America, the Vietnam war and other events. A distinction should perhaps also be made nowadays between anti-Americanism and anti-Bushism.

Exhibit 6.6 European Nations' Feelings Toward the United States

Country	Thermometer Readings
United Kingdom	62°
Italy	61°
Poland	56°
Europe	55°
Germany	55°
Netherlands	55°
France	51°
Portugal	50°
Slovakia	50°
Spain	42°
Turkey	28°

Source: German Marshall Fund, Transatlantic Trends, 2004.

through the prism of anti-Americanism? The withdrawal by the Socialist government of the troops sent to Iraq by the previous centre-right government to assist with security and reconstruction was thus a hugely popular move, but it created frosty relations between Washington and Madrid amidst accusations from the White House of betrayal by an ally.

Two points that go some way towards explaining Spain's stance over Iraq are the fact that the country is the most left-leaning in Europe, according to self-placement scales, and also the most pacifist (one of the legacies of the traumatic 1936-39 Civil War embedded in the collective memory)¹¹. On a scale of 1 to 10 from left to right – where the centre point is located at 5.5 – the average in Spain has held steady at around 4.7 since 1980. Spain's pacifism was underscored by German Marshall Fund's 2004 poll of the United States and European countries. To the question "Under some conditions, war is necessary to obtain justice" 82% of Americans responded 'yes', while only 25% of Spaniards (the lowest number of all the countries polled) answered in the affirmative. The question did not refer to any particular war, such as the Iraq War or the Vietnam War, but to war in general. Perhaps because of its own bitter experience, however, Spain is more belligerent when it comes to sending troops abroad to stop a civil war (approved by 70% compared with only 38% in the United States and an average for Europe of 56%).

The same poll, which included Spain for the first time, also showed Spaniards' lukewarm feelings towards the United States. As a whole, Europeans gave the United States a thermometer reading of 55 on a scale of 1-100. Spain's reading was the second lowest at 42 and only surpassed by

11. See the 2005 European Social Survey conducted by the European Science Foundation for comparisons.

Turkey's 28 (see Exhibit 6.6). It remained at 42° in the 2005 poll, which also showed that 81% of Spaniards disapproved of the way George W. Bush was handling foreign policy, the third highest in the EU after France and Germany and well above the 72% average for the ten countries surveyed. US nationals, however, show a notable sympathy towards Spain (63°), much higher than for the French (53°) and the Germans (60°) and only surpassed by the affection they feel for the British (72°).

Spain was also the second most reticent country in believing that it was justified to bypass the United Nations when its vital interests were involved (see Exhibit 6.7). Spaniards prefer the multilateral/multinational approach, perhaps as a result of the consensus that was needed and achieved to overcome the divisions of the Civil War after Franco died in order to restore democracy. A majority of Spaniards (66%) supported deploying peacekeeping troops in Iraq – but only if the United Nations approved a multinational force. This support, however, was reduced to 43% if the troops sent with a UN mandate were under US command.

Exhibit 6.7 When The Vital Interests of Your Country are Involved, It Is Justified to Bypass the United Nations

Country	Percent in Agreement
Turkey	71
United States	59
Netherlands	58
Slovakia	55
United Kingdom	51
Poland	46
France	46
Portugal	45
Germany	42
Spain	38
Italy	37

Source: German Marshall Fund, Transatlantic Trends, 2004.

Do these indicators mean that Spain is more anti-American than other European countries or is this a simplification of a complex issue involving many different factors? The 2005 Pew Global Attitudes Project, the gold standard of international opinion surveys, showed that Spain's favourable opinion of the United States had risen slightly since 2003, but at 41% it was still the lowest in Europe, along with Germany, and was well below the 50% registered in 1999 (see Exhibit 6.8). The survey was conducted in the United States and in 15 other countries in April and May. Spain's support for the war

Exhibit 6.8 Favourable View of the United States (%)

Country	99/00	2002	2003	2004	2005
Canada	71	72	63	-	59
United Kingdom	83	75	70	58	55
Netherlands	-	-	-	-	45
France	62	63	43	37	43
Germany	78	61	45	38	41
Spain	50	-	38	-	41
Poland	-	79	-	-	62
Russia	37	61	36	47	52
Indonesia	75	61	15	-	38
Turkey	52	30	15	30	23
Pakistan	23	10	13	21	23
Lebanon	-	35	27	-	42
Jordan	-	25	1	5	21

Source: Pew Global Attitudes Project, 2005.

**Exhibit 6.9 Country's Decision on War in Iraq
Right Decision to Use Force (%)**

Country	2003	2004	2005
United States	74	60	54
United Kingdom	61	43	39
Spain	31	-	24
Netherlands	-	-	59
Poland	-	-	24

Source: Pew Global Attitudes Project, 2005.

in Iraq has plummeted, but not as much as in the United Kingdom, which still has troops there (see Exhibit 6.9). When Spaniards were asked if they thought the world was safer without Saddam Hussein, only 13% replied affirmative, the lowest level among the European countries surveyed (39% in the UK, 28% in Germany and 23% in France).

One of the main factors that influences Spaniards' view of the United States, perhaps more than other countries, is Washington's foreign policy and the gap between the democratic values preached at home and what is practiced abroad. The area that arouses the most hostility has traditionally been Latin America, where US administrations have intervened over the years (for example, the covert support for the Contras fighting against Nicaragua's

Sandinistas during the 1980s and the 1989 invasion of Panama) and supported right-wing dictators because they were viewed as a bulwark against communism in their backyard. Spaniards with long memories recall that one of the reasons for the US support of the Franco regime (1939-75) was the dictator's staunch anti-communism.

Today, it is the Middle East that raises the most passions, particularly the war in Iraq and the issue of Palestine.¹² The re-election of George W. Bush in November 2004 intensified the negative feelings of many countries, including Spain, towards the United States. According to the March 2005 barometer of the Elcano Royal Institute, 68% of respondents felt his re-election was "negative for peace and security in the world", ten points above the world average but lower than in France (75%) and Germany (77%). When asked in the Pew survey what was the main problem with the United States, 76% of Spaniards said it was mostly President Bush, by far the highest proportion of all the countries surveyed (see Exhibit 6.10). A low regard for Bush is more heavily correlated with an unfavourable rating for the United States than any other attitude or opinion tested in the survey.

Exhibit 6.10 What's the Problem with the United States? (%)

Country	Mostly Bush	America in General	Both	Don't Know/Refused
Spain	76(50)	14(37)	7(12)	3(2)
Germany	65(74)	29(22)	5(3)	1(1)
Netherlands	63	30	6	1
France	63(74)	32(21)	5(4)	1(1)
Pakistan	51(62)	29(31)	10(2)	10(5)
Britain	56(59)	35(31)	8(8)	1(3)
Canada	54(60)	37(32)	9(6)	0(2)
Lebanon	47(51)	32(32)	19(16)	1(1)
Turkey	41(52)	36(33)	17(12)	6(3)
Indonesia	43(69)	42(20)	0(7)	15(4)
India	35	35	14	16
Jordan	22(42)	37(28)	41(30)	1(*)
China	16	34	42	8
Poland	27	49	14	10
Russia	30(43)	58(32)	9(15)	3(10)

(*) Based on those with an unfavourable opinion of the US.
2003 figure in brackets.

Source: Pew Global Attitudes Project, 2005.

Lastly, Spaniards tend to associate Americans, more than other countries do, with the negative traits "greedy" and "violent" and less with the positive characteristics "honest," "inventive" and "hardworking" (see Exhibit 6.11).

12. It is not lost on Spaniards that the controversial US prison camp for suspected terrorists at Guantánamo Bay in Cuba was Spanish territory ceded to the United States at the end of the 1898 Spanish-American war.

Exhibit 6.11 How Western Publics View Americans (%)

	Hardworking	Inventive	Honest	Greedy	Violent	Rude	Immoral
Canada	77	76	42	62	64	53	34
France	89	76	57	31	63	36	37
Germany	67	76	52	49	49	12	31
Netherlands	84	69	46	67	60	26	38
Poland	64	73	44	55	33	21	33
Russia	72	56	32	60	54	48	42
Spain	74	53	45	58	60	39	36
United Kingdom	76	64	57	64	53	29	26
United States	85	81	63	70	49	35	39

Source: Pew Global Attitudes Project, 2005.

On the other side of the Atlantic, more Americans viewed Spain in 2005 as a close ally than they did in 2004, but in the overall ranking by Harris Interactive of the countries perceived to be the closest allies Spain declined from ninth to eleventh position out of 25 countries (see Exhibit 6.12). 22% of respondents said Spain was a close ally, compared with 20% in 2004 and a high of 30% in 2003. The reason for the drop between 2003 and 2005 was the withdrawal of troops from Iraq – a particular development given prominent attention can have a big impact on people’s perceptions. The *New York Times*, for example, carried the story of the withdrawal on its front page with a headline across six columns, making it the most prominently displayed piece of news out of Spain since the Civil War of 1936-39.

Exhibit 6.12 How Americans View Nations – Trends on “Close Ally” Since 2000 (% Affirmative)

Country	2000	2001	2002	2003	2004	2005
United Kingdom	63	80	64	74	70	74
Canada	63	73	60	57	51	48
Australia	42	47	43	53	45	44
Israel	31	38	37	44	43	41
Japan	23	26	28	32	33	30
Mexico	27	37	30	32	27	27
Italy	27	37	30	32	27	26
South Korea	-	-	21	25	25	25
Germany	29	39	29	19	19	24
Sweden	-	-	24	20	18	23
Spain	21	27	23	30	20	22
Netherlands	22	22	24	22	19	21

Source: Harris Poll.

It should be noted here that the US press devotes little attention to Spain; this is one element that explains American ignorance of the country¹³. The *New York Times* closed its bureau in Madrid (opened before the Civil War) in 1995, the *Los Angeles Times* maintained one during the period of transition to democracy in the late 1970s and early 1980s and the *Washington Post* never had a bureau. These newspapers as well as *Time* and *Newsweek* use stringers or send in reporters based in other countries. Today, the only US newspaper with a staff correspondent in Spain, which means regular and sustained coverage, is the *Wall Street Journal Europe*. The European media, in comparison, as one would expect, is very well represented.

Lastly, Americans' perception of Spain is distorted by the growing Hispanic community in the United States, now the country's largest ethnic minority. This presence, combined with the generally low level of geographic knowledge, means many Americans do not distinguish sufficiently between "Spanish" and "Hispanic". All in all, Spain and the United States have a lot of work to do to understand one another properly.

13. A distinguished Spanish judge on sabbatical at New York University during 2005 was amazed to find that the *New York Times* had no daily section dedicated solely to Spain. Indeed, the NYT carried very little news on the country during his nine-month stay.

CHAPTER 7

LOOKING AHEAD

Spain and the United States have several elements that make their relationship a special one, particularly the US bases in Spain, the very large Spanish investments in Latin America – America’s backyard – and the growing importance of the Hispanic community in the United States, the country’s largest ethnic minority. The two countries also suffered the worst terrorist attacks of the 21st century. None of these factors on their own make Spain a particularly important country for the United States, but together they do give Spain, the world’s eighth-largest economy (now ahead of Canada, which, unlike Spain, is a G8 member), an added significance.

After a stormy period in the relations between the two governments as a result of the abrupt withdrawal of Spain’s troops from Iraq, Madrid and Washington have established a *modus vivendi*, although the pull-out of Spanish troops from Iraq remains a festering wound in the White House. The Socialists have toned down their rhetoric over Iraq, are cooperating very closely on international terrorism and have significantly increased their cooperation in Afghanistan, where 17 Spanish soldiers were killed in a helicopter accident, with the presence of more than 1,000 peacekeeping troops. However, there are serious differences over Cuba and, particularly, Venezuela.

The Socialists, unlike the previous centre-right government of the Popular Party (PP), whose foreign policy was much more in tune with George W. Bush’s, and the US administration are pursuing diametrically opposed policies in both these countries. The Socialists overturned the PP’s isolation of the Cuban regime and spearheaded the EU’s efforts to restore normal diplomatic relations as of January 2005, a decision ratified in June. The Socialists concluded that the previous policy was getting nowhere and, furthermore, was preventing Spain, in particular, and the EU, in general, from positioning itself in order to exercise influence after the death of Fidel Castro (78) in a possible transition to democracy. Tenuous parallels can be drawn between what

happened in Spain after the end of the regime of General Franco (1939-75) and what might occur after Castro.

Spain is the largest foreign investor in Cuba and has close cultural and family ties: the island was Spain's last colony (1898), and it is estimated that 70% of Cubans have a Spanish grandparent (alive or dead).¹ More than 150,000 Spanish tourists visit Cuba every year. The two poles of Cuban exiles in the world are Madrid, where some 60,000 Cubans live, and Miami (more than one million). The exiles in Madrid are less actively anti-Castro than the ones in Miami for various reasons, including the higher degree of sympathy that exists in Spain towards the Cuban regime among certain segments of the population, especially people to the left of the Socialists for whom Cuba is an emotive issue.

Spain's policy towards Cuba irritates Washington. The Bush administration regards Madrid's belief that it can influence events in Cuba as naïve – very little has changed in the human rights situation and few political prisoners have been released. The Socialists, on the other hand, point to the failure of the more than 40-year US blockade of Cuba to achieve very much other than to harden the Castro regime. Eduardo Aguirre, the US ambassador to Spain who took up his post in June 2005, is a Cuban-American; Madrid's relations with Cuba are high on his agenda. Both Aguirre and his wife emigrated to the United States in the early 1960s as unaccompanied minors under the "Peter Pan" programme, which brought 14,039 children to the country.

The dialogue between Spain and the United States over Venezuela – where several Spanish companies have significant investments, particularly the oil and gas conglomerate Repsol YPF, which has a joint venture with *Petróleos de Venezuela (PDVSA)* – is also one of the deaf, and it is becoming more seriously so. Donald Rumsfeld, the Secretary of Defence, harshly criticised Spain's sale of patrol boats and transport planes to the avowedly anti-American government of President Hugo Chávez, who claims to be building "21st century socialism". Again, Spain's Socialists want to keep their options open and not close the door, while Washington views Chávez as a dangerous demagogue in a volatile region with ties to Cuba that are too close for comfort. Spain's position towards Cuba and, particularly, towards Venezuela – Spain is not alone among European countries in taking a different line towards Havana to that of Washington but it is, to a greater extent, with respect to Venezuela – exemplifies the Socialists' desire for a more autonomous foreign policy. According to Elcano's June 2005 barometer, 60% of respondents backed the

1. See the three articles on Cuba by Juan Jesús Aznárez in *El País* (May 23, 24 and 25, 2005).

lifting of the EU sanctions against Cuba, but only 37% viewed the support for Chávez as positive.

In other Latin American and Caribbean countries – Bolivia, Ecuador and Haiti – Spain has been helpful in crisis situations. Spain's Foreign Ministry coordinated with the US State Department on ways to resolve the political crises in Bolivia and Ecuador, which saw the departure of both countries' presidents in 2005. In Haiti, Spain is part of the Brazilian-led UN peacekeeping force. Spain also has a capacity to act as a kind of broker in crisis situations in the Middle East, as its image is generally good in Arab countries and also in some quarters of Israel.

Spain's two main political parties are now widely in disagreement over foreign policy, particularly that towards the United States. According to Elcano's June 2005 barometer, 86% of respondents believe the Socialists and the PP are in disagreement over the United States. Foreign policy has become much more of a domestic political issue. FAES, the PP's think tank, is very active in aggressively denouncing the Socialists' foreign policy.

A victory by the PP in the next general election, to be held by 2008, could well see a swing back towards a more pro-Atlanticist foreign policy; however, given the profound opposition to the war in Iraq and the electoral setback for the PP in 2004 (largely because of its support for the war), a future PP government would probably not go as far as the last one did in the event of further military incursions. By moving closer to the United States, the PP was striving for "major player" status for Spain, but opinion polls suggest that most Spaniards do not want to move in this direction. This means that however good an understanding there is between the Spanish and US governments, as long as it is rejected by the majority of Spaniards, Madrid will always be in a position of weakness in the face of Washington and will not be fully trusted.

On the economic front, the future of US direct investment in Spain, indeed of all foreign investment, is closely linked to the long-term direction of the Spanish economy and to demographics, a factor that tends to be overlooked but which is very important because of its implications for the supply of labour, demand and consumption in the domestic market. Foreign direct investment in Spain as a whole is on a downward trend. Inflows amounted to \$35.9 billion in 2002, \$25.6 billion in 2003 and \$9.9 billion in 2004, according to the OECD. Excluding the investment in special-purpose entities (SPEs, financial companies set up to act as a conduit for investment), Spanish inward investment in 2004 was less than \$1 billion, compared with inflows in the range of \$7-9 billion in the years immediately before.

Spain is one of the EU economies that has grown the fastest over the past decade, in stark contrast to the relative slackness of the area as a whole. Real

Exhibit 7.1 Real GDP Growth in Spain, the EU-25 and the United States, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005F	2006F
EU-25	1.8	2.7	3.0	2.9	3.7	1.8	1.1	1.0	2.3	2.0	2.3
Spain	2.4	4.0	4.3	4.2	4.4	3.5	2.7	2.9	3.1	2.7	2.7
United States	3.7	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.4	3.6	3.0

Source: Eurostat.

GDP growth between 1996 and 2004 averaged 3.5%, slightly above that of the US economy and compared with 2.2% for the EU-25 (see Exhibit 7.1).

The boom is fuelled by buoyant private consumption, particularly a dynamic construction sector. Employment has risen strongly: 400,000 new jobs in 2004, one-third of all new jobs in the Euro zone. As a result of the huge influx of immigrants (who are doing the jobs that Spaniards are no longer willing to do), the National Statistics Office had to revise Spain's 2004 gross domestic product figure upwards by almost 40 billion to 837.5 billion. Household wealth (and indebtedness) has also risen significantly, largely linked to the surge in real estate values (145% between 1997 and 2005, only surpassed by South Africa, Ireland and Britain).²

However, there are several structural shortcomings, most notably a steady decline in competitiveness, which is manifested in all international surveys. Spain slipped from 31st to 38th position out of 60 nations in the 2005 competitiveness ranking of the IMD, just ahead of India and behind Hungary. Since 2001, Spain has fallen 14 places. The country declined in all four of the competitiveness factors, particularly in government and business efficiency (see Exhibit 7.2). Externally, Spanish products are facing growing difficulties in maintaining their market share. Spain's share of exports in foreign markets, which have held steady since the launch of the euro in 2002, tended to decline in 2004, even in the European market.

The current account deficit in 2004 (with no signs of a change of trend in 2005) was a record 40 billion (5% of GDP) because of low export growth, ballooning imports and a tourism sector, the economy's mainstay, which is beginning to suffer from more competitive prices in other countries. External, as opposed to domestic, demand is making an increasingly negative contribution to GDP growth.

2. See "In Come the Waves" (*The Economist*, June 18, 2005).

Exhibit 7.2 Competitiveness Factors*

	2005	2004	2003	2002	2001
Economic performance	25	22	24	19	30
Government efficiency	30	22	24	22	20
Business efficiency	48	38	31	29	26
Infrastructure	33	31	28	25	23
Overall ranking	38	31	27	23	24

(*) Ranking out of 60 countries.

Source: IMD World Competitiveness Yearbook 2005.

The current account deficit is partly due to higher oil prices and the euro's appreciation, but, in the words of Jaime Caruana, the governor of the Bank of Spain, "these factors do not suffice to explain either the scale of the deficit or the speed at which it has widened, and they should not therefore conceal the existence of a genuine deterioration relating to the losses in competitiveness built up in recent years."³ Although Spain belongs to a monetary union, which means "there is no danger of a burgeoning external deficit generating financial or foreign-exchange pressures that then trigger a sharp adjustment in the economy, since fundamental variables, such as the interest rate and exchange rate, are determined at the area-wide level", this does not signify that "the economy is immune to competitiveness problems. On the contrary, when a large external deficit emerges in a monetary union as a result of an economy's difficulties in competing, a very costly dilemma may arise: nominal costs are either adjusted head-on, or the loss of competitiveness will check the generation of value added and job creation."

Spain's ailing competitiveness, particularly in labour costs (see Exhibit 7.3), an area where the country cannot compete on this basis alone as it is no longer a low-cost manufacturer, has led more than 40 multinationals, as well as some Spanish companies, to pull out of Spain since 2002 and shift their production to other countries, principally the new EU members in eastern and central Europe but also China.⁴ Several US companies have partially or fully relocated, including Lear, DuPont, Levi's and Hewlett Packard. In 2005, the US-based TRW moved production of airbags and seat belts from Burgos to Poland to save costs, three years after it closed another plant near Barcelona. Although still an important vehicle manufacturing centre in Europe (Ford, General Motors and DaimlerChrysler are all in Spain), the production of parts

3. See pp. 10-16 of his address to the Bank of Spain's Governing Council on June 10, 2005 (www.bde.es/prensa/intervenpub/gobernador/100605e.pdf).

4. See "Factory Closures Hit Unskilled Workers", by Mark Mulligan in the special report on Spain in the *Financial Times* of June 14, 2005.

Exhibit 7.3 International Labour Costs*

Country	€
West Germany	28.14
Finland	24.88
France	20.74
United Kingdom	19.89
Ireland	18.11
Italy	18.79
United States	18.76
Spain	16.59
Portugal	7.21
Hungary	4.53
Poland	3.29

(*) Cost per hour in 2004 in the manufacturing sector.
Source: German Economy Institute in Cologne.

is slowly drifting eastward. Spain has traditionally been an export market, but the gap between exports and imports of vehicles has gradually been narrowing since 2000, and in 2004 imports from the EU were higher than exports to the EU. One of the reasons for this is the opening of new plants in eastern Europe.

Spain, however, is not an isolated case; relocation is part of a growing trend in Western Europe. Nonetheless, it could be more vulnerable than other countries because, as well as rising costs in the manufacturing sector (they are now not far off Italy's), the country lags behind in knowledge and innovation indicators in the broadest sense. According to a study on the relocation of companies in Spain, the most threatened sectors are transport equipment, electrical and electronic equipment, rubber and plastics.⁵ These sectors represent 15% of Spain's industrial sector and are all areas with US companies.

Improving Spain's competitiveness involves a lot more than labour costs, which in themselves do not make a country uncompetitive provided it offers other advantages, such as superior product quality, and can provide value added. Finland is a case in point. Its labour costs are much higher than Spain's and yet it is regularly among the world's ten most competitive economies. The problem for Spain is that its rising labour costs are combined with other factors, such as an education system that is not producing the skills and training levels required by companies, the lacklustre behaviour of productivity, low spending on R&D and labour market laws that are still too rigid for the firing of people on permanent as opposed to temporary contracts. The situation of

5. See *El riesgo de deslocalización industrial en España ante la ampliación de la Unión Europea*, by Lluís Torrens and Jordi Gual (IESE Business School, February 2005).

Exhibit 7.4 PISA Report Ranking, Selected OECD Countries

Reading	Mathematics	Science
1. Finland	1. Finland	1. Japan
2. South Korea	2. South Korea	2. Finland
6. Ireland	6. Belgium	6. Czech Republic
12. Japan	12. Denmark	12. Sweden
14. France	14. Sweden	14. Hungary
15. US	16. Ireland	15. Germany
21. Czech Republic	22. Hungary	21. US
23. Spain	24. Spain	22. Spain
26. Italy	25. US	25. Luxembourg
29. Turkey	29. Turkey	29. Turkey
30. Mexico	30. México	30. Mexico

Source: OECD.

temporary contracts – one in every three employees in Spain has a short-term contract, compared with an OECD average of one in ten – is very flexible, so much so that it is a problem as it puts workers in a precarious situation and discourages employers from properly training their employees. Another area that needs to be addressed is the excessive number of administrative permits required for investments (General Electric, for example, needed a staggering 111 permits for its latest investment in Cartagena).

Neither Spain nor the United States came out very well in the latest PISA report on secondary education in OECD countries (see Exhibit 7.4). The United States, however, makes up for the shortcomings in secondary education with the overall excellence of its universities; Spain does not, except in a handful of cases and in its main business schools, which are of very high

Exhibit 7.5 High-Tech Exports (% of Total Exports of Manufactured Goods)*

Country	% of High-Tech Exports
Czech Republic	14.6
Finland	24.6
France	24.1
Germany	19.3
Hungary	30.0
Ireland	57.9
Italy	12.0
Mexico	28.4
Spain	11.0
United Kingdom	38.5
United States	36.4

(*) 2002.

Source: OECD

Exhibit 7.6 Labour Productivity per Person Employed (EU-25 = 100)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Spain	104.1	103.7	101.8	101.3	102.4	99.4	99.4	100.7	101.7	100.2	99.4
United States	132.6	133.4	134.1	134.9	135.7	134.3	134.5	137.0	138.6	140.6	142.1

Note: GDP in purchasing power standards (PPS) per person employed relative to EU-25. If the index of a country is higher than 100, this country's level of GDP per person employed is higher than the EU average and vice versa. The figures are expressed in PPS (i.e. a common currency that eliminates the differences in price levels between countries and so allowing meaningful comparisons).
Source: Eurostat.

quality. Multinationals are impressed by the quality of Spain's executives but increasingly worried by the gap that is opening up between their skills and those of workers on the shop floor. Spain is at the bottom of developed countries in terms of the educational results of its students: 33% do not complete their upper secondary education compared with an average of 21% in all OECD countries.

What is of particular concern for the future of Spain is that countries with a lower per student level of expenditure, such as Hungary and Poland, have better educated workforces. Spain's high-tech exports account for only 11% of its total exports of manufactured goods, compared with 30% in Hungary (see Exhibit 7.5). Another indicator of Spain's low level of innovation is its number of patents per million inhabitants, which in 2001 (latest year available) was 18, compared with an EU-25 average of 109 and the US's 95.

The combination of higher wage increases in Spain – the result of a persistent inflation differential with the EU-25 (a full percentage point in 2004) and wage-setting and indexing mechanisms that set a higher floor for nominal wage growth than in other countries and very low productivity gains – is eroding competitiveness. The modest labour productivity reflects, among other factors, very strong job creation, which is something very positive and has been the driving force behind Spain's exceptionally long period of economic expansion. This period has lasted much longer than most people envisaged and has substantially reduced the high unemployment rate to below 10%, almost in line with the EU-25 average (see Exhibit 7.6). Employment increased by 2.7% in 2004 and apparent labour productivity was only 0.4%. Spain's productivity per hour worked dropped from 82.2% of the US level in 1991 to 75.3% in 2003, according to the Bank of Spain.⁶

6. See the table on p. 24 of the Bank of Spain's 2004 Annual Report.

Exhibit 7.7 Employment, Productivity and R&D Spending

Country	Labour Productivity per Person Employed in 2004 (EU-25=100)	Employment Rate (%)¹	R&D Spending (% of GDP)*
France	120.4	63.1	2.2
Germany	100.9	65.5	2.5
Italy	108.5	57.6	1.1
Spain	100.2	60.9	1.1
Sweden	105.4	72.1	4.2
United Kingdom	108.4	71.6	1.8
EU-25	100.0	63.3	1.9
United States	140.6	71.2	2.7
Lisbon target 2010	–	70.0	3.0

(*) 2003 figures.

(1) Employed people in 2004 between the ages of 15 and 64 as a percentage of the total population.

Source: Eurostat.

More worryingly, Spain's declining productivity denotes the lack of technological progress, something that hinders the economy's overall efficiency and its long-term growth capacity. This can be seen from the small rise in total factor productivity (TFP, an approximate indicator of the growth in technological progress), which increased in manufacturing by an average of only 0.3% a year between 1996 and 2002, compared with 2.5% in 1980-1995, according to the Bank of Spain, which noted that this decline is "somewhat more than a temporary effect linked to an episode of vigorous job creation or of changes in the sectoral composition of employment." Other labour market analysts have reached the same conclusion.⁷ And this is occurring at a time when foreign direct investment is slowing considerably (FDI having been one of the main channels for the diffusion of technological advances), and in which the weight of high-technology imports remains very limited, despite the surge in import penetration.

Among the EU-15 countries, Spain is one of the main laggards in meeting the objectives of the Lisbon Agenda launched in 2000 to make the EU by 2010 "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs" (see Exhibit 7.7). Spain's spending on R&D represents, for example, 1.1% of GDP, less than half the 2.7% spent by the United States. There is considerable discontent among Spain's scientific community, many of whose best brains

7. See, for example, "Perfiles TIC como agentes tecnológicos en la empresa. ¿Qué tipo de profesional necesita la empresa para gestionar las Tecnologías de la Información?" by Valeriano Muñoz, Summer Courses of the Complutense University, El Escorial, 2003. This document expressed concern at the slower pace of productivity growth, which was due not only to the very strong creation of jobs.

feel they have no alternative but to seek employment abroad. The government is trying to attract as many of them back as it can.

The government announced a very ambitious five-year plan in June 2005, *Ingenio 2010*, that aims to almost double spending on R&D to 2% of GDP by 2010, and so put behind it the famous remark of the philosopher Miguel de Unamuno (1864-1936) who, when asked about what Spain could do to strengthen its contribution to scientific progress, said “let others invent.” But this level, assuming it is achieved, would still only be the current average for the EU-25 and far from the 3% target set under the Lisbon Agenda. Previous R&D policies have been erratic, to say the least.

Infrastructure, another important area for an economy’s competitiveness, has been transformed beyond recognition in the past 20 years in Spain, largely thanks to EU funds. However, the pace of improvement will lose momentum from 2007 unless the government (via higher taxes) or the private sector invest more money. Spain, currently the largest net recipient of EU funds in absolute terms, will receive considerably fewer funds, and by the end of the next budgetary period (2013) it will almost certainly be a net contributor. The government’s infrastructure plan for 2005-20 envisages the building of 6,000km of new roads and 9,000km of high-speed rail track at a cost of 249 billion – probably an unrealistic target.

Spain also needs an industrial policy that focuses on the areas it wants to develop, and one that is well coordinated with the country’s regions and discourages them from competing unnecessarily with one another.

Some of these concerns are reflected in the 2005 Barometer of US Business in Spain, which showed a significant rise in the number of companies worried about the Spanish economy (14% vs none in 2004).⁸ The survey detected less optimism and a slowdown in investment projects, pointing to a possible change of trend in the future. The results, however, have to be interpreted cautiously, as the number of companies that took part in the survey during the first quarter of the year was not very large. Only 14% of the companies answered the questionnaire (the proportion for companies employing more than 500 workers was higher at 21.5%).

The proportion of companies that said they were completely satisfied dropped from 24% in 2004 to 15% in 2005. Those with a pessimistic view rose from 4% to 14%.

Close to half (49%) the companies said they made investments in 2004, of which 79% was to increase their production capacity. The increases in capacity, however, were modest: 40% of them were to boost capacity by 10% and 36%

8. *El barómetro de los negocios norteamericanos en España, perspectivas para 2005*, prepared by Joan Manuel Batista i Foguet and Pere Puig i Bastard (US Chamber of Commerce in Spain and ESADE).

Exhibit 7.8 Increase in Production Capacity, by Sectors (2004)

Sector	Increase in Capacity	
	Yes	No
Food, drinks, tobacco	3	0
Auto	2	1
Electrical and electronic material	4	2
Chemicals-pharmaceuticals	5	1
Metallurgy	1	2
Other consumer goods	1	0
Other manufacturing industries	2	0
Information society	3	0
Consultancy-advanced services	2	0
Financial-insurance	1	1
Other services	3	0
Total number of companies	27	7

Source: Barometer of US Business in Spain, 2005.

by 10%-20%, while only 8% were for increases of more than 50%. The main increases in capacity were in the food, chemicals-pharmaceuticals, information society and electrical and electronic material sectors (see Exhibit 7.8). Only 27% of the companies, mostly in the services sector, said they planned to invest more than in 2004 (see Exhibit 7.9). Almost two-thirds of the companies said they were “pessimistic” about creating employment in the medium term.

One measure that the government can easily take to make the economy more attractive, particularly for American companies, is to cut the corporate income tax rate, which at 35% is almost the highest in Europe and well above the 28% rate in the United States (see Exhibit 7.10). While Spanish and foreign companies alike would readily welcome the reduction, in itself it would do little to make Spain more competitive.

Spain’s demographics are much more positive today than just a few years ago. As a result of one of the world’s lowest fertility rates and little

Exhibit 7.9 Investment Plans for 2005

In Relation to the Investment Level in 2004	Number of Companies	%
Much higher	6	9
Slightly higher	12	18
Same level	17	26
A little below it	9	13
Well below it	6	9
No investments in 2005	16	25

Source: Barometer of US Business in Spain, 2005.

Exhibit 7.10 Average Corporate Income Tax Rates (%)*

Germany	25.0
France	35.4
Spain	35.0
Italy	33.0
United Kingdom	30.0
Sweden	28.0
United States	28.0
Czech Republic	26.0
Finland	26.0
Poland	19.0

(*) In 2005.

Source: PricewaterhouseCoopers.

immigration, Spain's population hardly increased during the 1990s and it was rapidly ageing. This led the United Nations Population Division to forecast a fall from 39.9 million in 2000 to 31.2 million in 2050. Declining populations and ageing are Europe-wide phenomena, but the trends in Spain were more acute. As the European Commission's Green Paper (March 2005) on confronting demographic change states, "never in history has there been economic growth without population growth". The more people that can potentially engage in economic activity the larger a country's potential output.

The situation in Spain is changing as a result of massive immigration (close to 700,000 new immigrants in 2002, 370,000 in 2003, 650,000 in 2004 and probably around the same number in 2005). Spain is receiving more immigrants than any other EU country. The population was officially 44.3 million in July 2005. The demographic factor is now one of the main engines of the country's economic expansion and has helped to sustain it for an exceptionally long period. The number of births in 2004 (453,278) was the highest since 1985, and one in every seven babies had a foreign mother. The fertility rate has been inching up, and at 1.32 was the highest since 1993.

The future population scenario, however, is very confusing because of widely different forecasts by Eurostat, the EU's statistical institution, and Spain's National Statistical Office (INE). The difference between the two institutions' estimates of Spain's population in 2050 is a stunning 10 million people.⁹ According to Eurostat, the population that year will be 43 million, less than it is today, as it will peak at 46 million in 2030 and then decline. INE's figure is 53 million in 2050. Eurostat probably underestimates the potential for

9. See *Spain's Population: The Bigger the Better? Ways of Guessing the Future* by Rickard Sandell (Elcano Royal Institute ARI 58/2005, www.realinstitutoelcano.org/analisis/736.asp).

further immigrants, while INE's projections (an average of 250,000 new immigrants a year) could be on the high side, as it assumes that Spanish public opinion will always welcome new immigrants, meaning that there will be no political obstacles to the continuation of immigration at high levels. If INE's forecasts are right, Spain's population growth will be the fastest of all EU member states in both relative and absolute terms, and the immigrant population would account for 28% of the total population in 2050, compared with over 9% in 2005. "Based on the experience of other European countries, as the share of immigrants grows there is an increasing risk that Spanish public opinion becomes less welcoming towards new immigrants in the future."¹⁰ Public opinion polls already show a move in this direction. Many of the EU countries with a large immigrant share (the Netherlands, Austria and France) have had a fair degree of social conflict.

What is less disputed is the extent of the ageing of Spain's population, regardless of what size it reaches in 2050. This also has implications for foreign investment, as certain sectors, such as healthcare, will become increasingly important and create business opportunities. Eurostat's forecast implies that the share of people in the total population over 65 will increase from the current level of 15% to 35% by 2050, while INE's projection is around 30%.

As regards Spanish direct investment in, and exports to, the United States, there is clearly room for a substantial increase in both areas. This is something that is receiving greater attention from ICEX, the government's foreign trade institute, under a special plan. Spain's leading multinationals – Grupo Santander, BBVA, Endesa, Iberdrola, Unión Fenosa, Telefónica, Repsol, Gas Natural, Dragados and Ferrovial – have invested heavily in Latin America and are increasingly doing so in Europe (for example, Santander's acquisition of the UK bank Abbey National, Telefónica's purchase of Cesky Telecom in the Czech Republic and Fagor's purchase of the French domestic appliances company ElcoBrandt). One of the most promising areas in the United States is infrastructure, where Cintra, part of Ferrovial, has led the way. BBVA is also showing there is scope for banking business with Hispanics, a community that is of particular interest to Spain although, because of its heterogeneous nature, one that is very difficult to penetrate. Nevertheless, the efforts being made to forge ties with Hispanics at all levels is a project that will probably pay dividends over the long term.

The Palladium Equity Partners III Fund, the largest private equity fund aimed at the Hispanic market, in which BBVA is a strategic partner, made its

10. Ibid.

first acquisition in June 2005, when it bought Taco Bueno, a Mexican fast-food chain with 136 restaurants in Texas, Oklahoma and Kansas. The fund concentrates on medium-sized companies, the area with the most possibilities for Spanish companies in the United States, given the enormous size of the market and hence the high and probably prohibitive cost of acquiring very big companies (the strategy pursued in Latin America).

Despite the slow but steady growth in the Spanish-US bilateral economic relationship, much potential remains untapped. According to the Elcano Index of Strategic Risks and Opportunities for the Spanish Economy, the United States is classified as a "strategic opportunity" for Spain (see www.realinstitutoelcano.org/publicaciones/libros/indice_oportunidades/inf4p1.pdf). Even given the US's frequent status as the number one national investor in Spain, the relatively underdeveloped commercial relationship and the still modest flows and stocks of Spanish FDI in the US yields a situation in which Spain's interaction with the US is still much less significant than it might be. Between 1995 and 2004 (the years covered by the Elcano Index), the United States oscillated between a position as an essential economic partner (like the UK, France or Germany) and a position as an underdeveloped "strategic opportunity." Given the very large size of the US economy, however, and the natural economic gravity we would expect it to exert on Spanish economic agents, it seems reasonable to conclude that the United States offers very interesting strategic potential for the Spanish economy to take advantage of.

As well as scope for greater trade and investment, Spain and the United States also have room for closer cooperation in various other areas, particularly in the scientific and technological fields and in defence industrial cooperation, an area of great imbalance in Spain's relations with the United States. It is surprising that Spain still does not have a science and technology attaché at its embassy in Washington. Miguel Ángel Moratinos, Spain's foreign minister, has put forward five proposals: (1) to hold ministerial meetings at least once a year and on a lower level twice a year to strengthen bilateral cooperation in Latin America, the Middle East and the Mediterranean and to forge closer cooperation in security and terrorism issues; (2) to promote mutual campaigns to "get rid of prejudices and misunderstandings"; (3) to establish a scholarship programme along the lines of Europe's Erasmus; (4) to create a joint institution for research and development; and (5) to set up a joint organisation among US and Spanish companies to promote the exchange of information. Whether anything comes of these proposals remains to be seen.

APPENDICES

APPENDIX 1

CLASSIFICATION OF US COMPANIES IN SPAIN, BY SECTOR*

Advertising Agencies

B-Com3
 Backer, Spielvoege, Bates
 CPC Proximity
 DDB Worldwide
 Communications
 Grey Global Group
 Interpublic Group of Companies
 J. Walter Thompson
 Leo Burnett
 McCann-Erickson
 Ogilvy & Mather
 Truth North Communications
 Young & Rubicam

Aerospace

Boeing Company
 FMC Technologies
 Hexcel Corporation

Agricultural Commodities

Cargill Inc.
 Conagra Foods
 Dole Food Company

Goya Foods
 Monsanto Company
 Nestlé Purina Petcare
 Pioneer Hi-Bred
 Scotts Co.
 Seminis Inc.

Agricultural Machinery

Big Dutchman
 Deere & Company
 Valmont Industries Inc.

Air Conditioning Equipment

Baltimore Aircoil Co.
 Carrier Corp.
 Reftrans
 Termo King Corp.
 Trane Co.
 York Intl. Corp.

Amusement & Recreation

Services
 AMC Entertainment
 Anheuser-Busch Companies

(*) The list covers manufacturing and distribution companies by the name of the parent company.
 SOURCE: American Chamber of Commerce in Spain.

Carlson Leisure Group
DLJ Real Estate Capital Partners
Interval International

Apparel & Related Products

Fruit of the Loom Inc.
Lee Company
Levi Strauss & Co.
Sara Lee Corp.
Velcro USA Inc.
VF Corp.
Wrangler

Architectural, Engineering & Construction Services

Bechtel Group Inc.
Chasan and Nicoletti
Fluor Corporation
Foster Wheeler Limited
General Electric Company
Meadow Valley Corporation
Parsons Brinckerhoff
Raytheon Inc.
Westinghouse Electric Corp.

Automatic Vending Machines

Crane Co.
IMI Cornelius
Vendo Co.

Automotive

ArvinMeritor Inc.
Collins & Aikman Corp.
Dana Corp.
Datcom Instrument Co.
Delphi Corp.
Eaton Corp.
Federal-Mogul Corp.

Findlay Industries Inc.
Ford Motor Co.
Fruehauf Corp.
General Electric Company
General Motors Corp.
Goodyear Tire & Rubber Co.
Harley-Davidson Inc.
Hayes Lemmerz Intl. Inc.
Honeywell International Inc.
Johnson Controls Inc.
Lear Corporation
Mark IV Industries Inc.
Metaldyne Corporation
Tenneco Automotive
TRW Automotive Holdings Corp.
Visteon Corp.
Walbro Corp.

Banking, Securities & Financial Services

American Express
Bank of America
Bank of New York
Caterpillar Financial Corp.
Financiera
Citigroup Inc.
FCE Bank (Ford Motor Co.)
First Union National Bank
General Electric Capital Bank
JP Morgan Chase & Co.
Merrill Lynch & Co. Inc.
Morgan Stanley

Building Materials & Equipment

Armstrong World Industries Inc.
Formica Corporation
Interface Flooring Systems

Keith Walking Floor Europe
 Jeld-Wen Inc.
 Kohler Co.
 Masco Corporation
 Otis Elevator Company

Business & Consulting Services

A.C. Nielsen
 Accenture
 Ajilon
 American Appraisal Associates
 AT Kearney
 BearingPoint Inc.
 Boston Consulting Group
 Boyden World Corp.
 Burson-Marsteller
 D&B Corp.
 Deloitte
 Drake Beam Morin Inc.
 Edelman Public Relations
 Worldwide
 Ernst & Young
 HayGroup
 Heidrick & Struggles Intl. Inc.
 Hill & Knowlton Inc.
 IMG Inc.
 IMS
 Korn Ferry International
 KPMG
 Kroll Associates Inc.
 Kurt Salmon Associates Inc.
 McKinsey & Co. Inc.
 Mercer Inc.
 Monitor Co.
 Moody's Investors Service
 PricewaterhouseCoopers
 Right Management Consultants
 RSM McGradley Inc.

Russell Reynolds Associates Inc.
 Spencer Stuart
 Towers Perrin
 Underwriters Laboratories Inc.
 Watson Wyatt & Company
 Weber Shandwick

Business Services

Alamo Rent A Car Inc.
 Avis Inc.
 Richard Ellis Real Estate
 Herramientas Eurotools
 Hertz Corp.
 Hines
 Kelly Services Inc.
 Manpower Inc.
 NAI
 Natexis Pramex N. America
 Corp.
 Quintiles Transnational Corp.
 Secure Wrap Inc.
 Service Corp. Intl.
 Westinghouse Electric Corp.

Chemical & Allied Products

Abbott Laboratories
 Acheson Colloids Company
 Air Liquide America Corp.
 Air Products & Chemicals Inc.
 Bio-Rad Laboratories
 Buckman Laboratories Inc.
 Dow Corning Corporation
 Dow Chemical Company
 Du Pont de Nemours E.I. & Co.
 Inc.
 Eastman Chemical Company
 Enthome-OMI Inc.

Ferro Corporation
 FMC Corp.
 WR Grace & Co.
 Griffith Laboratories Inc.
 H.B. Fuller Co.
 Henkel Loctite Corp.
 Hercules Inc.
 Houghton International Inc.
 Huntsman International
 International Flavors &
 Fragrances Inc.
 ISP Int. Speciality Products
 MacDermid Inc.
 NCH Corp.
 Noveon Inc.
 PPG Industries Inc.
 Quaker Chemical Corp.
 Rohm and Haas Co.
 Safety-Kleen Corp.
 Wheelabrator Technologies Inc.
 World Minerals Inc.

Communications, Electronics

Agilent Technologies
 Avaya Inc.
 Cisco Systems Inc.
 Telematics Intl. Inc.

Construction & Mining

Machinery

Baker Hughes Inc.
 Case Corp.
 FMC Corp.

Consumer Goods

Binney & Smith Inc.
 Hasbro Inc.
 Johnson S.C. & Son Inc.

Mattel Inc.
 Pelican Products Inc.
 Procter & Gamble Co.
 Sara Lee Corp.
 Timberland Corporate
 Toys "R" US
 Twentieth Century Fox Home
 Entertainment Inc.
 United States Playing Card Co.

Cosmetics & Toiletries

Amway Corporation
 Avon Products Inc.
 Colgate-Palmolive Co.
 Elizabeth Arden Inc.
 Estée Lauder Intl. Inc.
 Gillette Co.
 Helene Curtis Industries Inc.
 Herbalife Intl. Inc.
 J.B. Williams Holdings Inc.
 Johnson & Johnson
 Mary Kay Cosmetics
 MedPointe
 Procter & Gamble
 Revlon Inc.

Drugs & Pharmaceuticals

Allergan Inc.
 Amgen Inc.
 Baxter World Trade Corp.
 Bentley Pharmaceuticals Inc.
 Bristol-Myers Squibb Co.
 Eli Lilly & Co.
 Johnson & Johnson Inc.
 Merck & Co. Inc.
 Pfizer International Inc.
 Schering-Plough Corp.
 Stiefel Laboratories Inc.

Valeant Pharmaceuticals Intl.
Wyeth

Electronics

Anixter International Inc.
Arrow Electronics, Inc.
Cooper Industries
Delphi Automotive Systems
Emerson Process Management
Exide Technologies
Ford Motor Co.
Gould Electronics
Molex Intl. Inc.
Northrop Gunman Corp.
Raytheon Inc.
Richardson Electronics
Tektronix Inc.
Tyco Electronics Corp.

Environmental Equipment & Services

American Air Filter McQuay Intl.
BHA Group Inc.
Facet Corp.
Graver Water Systems Inc.
Hydronautics, Inc.
Ionics Inc.
Millipore Corp.
Nalco Chemical Co.
Products Organica Inc.
URS Corporation
VAC System Industries

Glass Products

Guardian Industries Inc.
Owens-Corning Fiberglas Technology Inc.

Graphic Arts

Graphic Controls Corp.
Sun Chemical Corp.

Hotels Restaurants & Services

Aramark Corp.
Burger King Corporation
Hard Rock Cafe Inc.
McDonald's Corp.
MGM Mirage
Ritz-Carlton Hotels Co.
Starwood Hotels & Resorts Worldwide
Yum! Brands Inc.

Household Appliances

Gillette Co.
General Electric Company
Whirlpool Corp.

Industrial Machinery & Supplies

Actuant Corporation
APW Ltd.
Black & Decker Corp.
Branson Ultrasonics Corp.
Deublin Company
Dresser Industries
Duo-Fast Corporation
Erico Products Inc.
General Electric Company
General Cable
Helgeson Scientific Services
Honeywell International Inc.
IDEX Corporation
Instron Corp.
Lincoln Electric Company Inc.
Minnesota Mining
Manufacturing St. Paul (3M)

MTW Magnaflux
 Nordson Corp.
 Oilgear Co.
 Parker Hannifin Corp.
 Perkin Elmer Inc.
 Praxair Inc.
 Precision Valve Corp.
 Ramsey Technology Inc.
 Rockwell Automation
 Standex Intl. Corp.
 Timken Company
 Ucar International Inc.
 Varian Inc.
 Welbilt Corp.

Insurance Services

American Intl. Group Inc.
 American Life Insurance Co.
 AON Corp.
 Cigna Corporate Inc.
 Chubb Group of Insurance
 Companies
 General Electric Company
 Marsh & McLennan Companies

Law Firms

Baker & McKenzie
 Jones Day
 Squire Sanders & Dempsey

Media Publishing & Printing

Addison-Wesley
 Columbia Tristar Film
 Distributors Intl.
 McGraw-Hill Companies Inc.
 Peer Music USA
 Reader's Digest Association Inc.

Time Warner Inc.
 Walt Disney Company

Medical Equipment & Supplies

Bard CR Inc.
 Beckman Coulter Inc.
 Becton Dickinson & Co.
 Beltone Electronics Corp.
 Biomet Inc.
 Boston Scientific Corp.
 Dade Behring Division
 Gambro BTC.
 Medtronic Inc.
 Mentor Corp.
 Ortho-Clinical Diagnostics Inc.
 Stryker Corporation
 Sunrise Medical Inc.
 Tyco Healthcare Group
 W.L. Gore & Associates Inc.
 Waters Corp.
 Zimmer Inc.

Medical Services

Invacare Corp.
 Tenet Healthcare Medical Inc.
 USP International Inc.

Office Machines & Supplies

Esselte Corporation
 Lanier Worldwide Inc.
 Lexmark International Inc.
 Regus PLC.
 Steelcase Inc.
 Xerox Corp.

Optical Goods

Bausch & Lomb Inc.

Packaging Equipment & Materials

Alcoa Inc.
Crown Cork & Seal Company Inc.
International Paper Co.
Markem Corp.
Meadwestvaco Corp.
Riverwood Intl. Corp.
Sealed Air Corp.
Sonoco Products Co.
Tupperware Corp.
US Can Corp.

Paper & Allied Products

Avery Dennison Corporate
Georgia Pacific Corporation
Kimberly Clark Corp.

Petroleum Products

Chevron Texaco Corp.
Exxon Mobil Chemical Co.
Lubrizol Corp.
General Electric Energy Rentals

Photographic Equipment

Eastman Kodak Company
Polaroid Corp.

Plastics & Plastic Products

Cadillac Plastic & Chemical Co.
General Electric Company
Illinois Tool Works Inc.
Tyco Electronics Corp.

Primary Metal Products

Armco Inc.
Atlantic Copper

International Paper Co.
J.L. French Automotive Castings Inc.
Preformed Lined Products Co.

Processed Food

Allied Domecq Quick Service Restaurant
Brown-Forman Corp.
Coca Cola Company
Dole Food Company
General Mills Inc.
HJ Heinz Company
Kellogg Co.
Kraft Foods
Mars Inc.
McLane Group
Nabisco Intl. Corp.
PepsiCo Inc.
Sara Lee Bakery Group
Triton Cruise Services Inc.
Unilever Best Foods
WM Wrigley Jr. Co.

Security & Safety Equipment

Aearo Corp.
Checkpoint Systems Inc.
Federal Signal Corporation
General Dynamics Corporation
Johnson Controls Inc.
Mine Safety Appliances Co.
Tyco Fire & Security

Software & Hardware

Apple Computer Inc.
Ascential Software Inc.
Autodesk Inc.
BancTec Inc.

BMC Software Inc.
 Computer Associates Intl. Inc.
 Computer Sciences Corporation
 Concurrent Computer Corp.
 DataPoint Corp.
 Dell Computer Corp.
 EDS Corp.
 EMC Corp.
 Getronics NV. Inc.
 Hewlett-Packard Company
 IBM Corp.
 Ingram Micro Inc.
 Intel Corp.
 Intergraph Corp.
 Microfocus International Ltd.
 Microsoft Corp.
 NCR Corporation
 Novell Inc.
 Oracle Corp.
 Parametric Technology Corp.
 Ross Systems Inc.
 Silicon Graphics Inc.
 SSA Global Technology Inc.
 Sun Microsystems Inc.
 Surfernet
 Texas Instruments Inc.
 Unisys Corp.
 Verbatim Corp.

Sporting Goods

AMF Bowling Products Inc.
 Nike Inc.
 Reebok International Ltd.

Teaching & Education

Berlitz International Inc.
 IES
 Kaplan Inc.

Schiller Intl. University
 Sylvan Learning Systems Inc.
 Syracuse University
 University of Chicago

Telecommunications Equipment & Services

Andrew Corp.
 AT&T Corporation
 Equant
 Lucent Technologies
 Minnesota Mining &
 Manufacturing St. Paul (3M)
 Motorola Inc.
 Primus Telecommunications
 Group Inc.

Textile Machinery & Products

John D. Hollingsworth on
 Wheels Inc.

Tobacco Products

DIMON Incorporated
 Philip Morris Inc.
 R.J. Reynolds Tobacco Intl. Inc.

Transportation Services

America West Airlines
 American Bureau of Shipping
 AMR Corp.
 Arinc Inc.
 BAX Global Inc.
 Cargo Solutions Inc.
 Continental Airlines
 Delta Air Lines Inc.
 DHL Airways Inc.
 Eagle Global Logistics
 Expeditors Intl. of Washington,

Inc.
FedEx Corporation
Logfret Inc.
Menlo Worldwide Forwarding
Sea-Land Service, Inc.
Scenic Airlines Inc.
United Airlines Inc.
United Parcel Service of
America, Inc.
World Courier Inc.

APPENDIX 2

CLASSIFICATION OF SPANISH COMPANIES IN THE UNITED STATES, BY SECTOR*

Automotive

Ajusa
 Derby Nacional Motor
 Emergencia 2000
 Gas-Gas Motos
 Grupo Antolín Irausa
 Navarra de Componentes
 Electrónicos
 Remsa-Revestimientos
 Especiales Moldeados

Azulev
 Bermarmol
 Cerámicas Saloni
 Decicerm
 Dune
 Jaz Zubiaurre
 Keraben USA/Disacer
 Porcelanosa
 Quide
 Sagota
 Vertisol Internacional

Banking, Securities & Financial Services

Banco Bilbao Vizcaya
 Argentaria
 Banco de Sabadell
 Banesto
 Caja Madrid
 Santander Central Hispano

Business Services

Ungría Patentes y Marcas

Chemical & Allied Products

Astral Export

Construction

Cintra

Building Materials & Equipment

Adex
 Alcalagrés
 Azulejera Alcorense

Consumer Goods

Arvet
 Camper/Conflusa

(*) Listed by the name of the parent company.
 SOURCE: Spain-US Chamber of Commerce.

Candela Hermanos
 Colomer Group
 Cropusa Baños
 El Corte Inglés
 Esmalglass
 Estiluz
 Fagor Electronica Soc. Coop.
 Festina
 Fivent
 Géneros de Punto Torras
 Gorina
 Grupp Internacional
 Hermex Surniper
 Hurtado Muebles Decoración
 Inditex
 Industrias El Gamo
 Industrias Hergom
 Inoxcrom
 Itálica de Esculturas
 Joma Sport
 Kelme Distribución
 Lladró (Grupo)
 Magnanni
 Majórica
 Mango
 Menkes
 Mezian
 Sacha
 Sonia
 Téxtil Santanderina
 Torraspapel
 Villagarnelo Internacional
 Vitrex

Cosmetics & Toiletries

Antonio Puig
 Compañía General de Esencias
 Lucta

Drugs & Pharmaceuticals

Covex
 Probitas Pharma
 Prous Science

Electronics

AEQ-Aplicaciones Electrónicas
 D.A.S. Audio
 Edibon
 Eurocir
 Ikusi Ángel Iglesias
 IUL
 Pesa Electrónica

Energy

Aguas de Barcelona
 Atersa, Aplicaciones
 Covalux
 Endesa
 Gamesa
 Grupo Guascor
 Unión Electrica Fenosa

Hotels, Restaurants & Services

Barceló Hotels

Industrial Machinery & Supplies

Auras Poultry Equipment
 Bellota Herramientas
 Canela
 Danobat Machine Tools
 Esmena
 Etxe-Tar
 Germans Boada (Rubi Tools)
 Govesán
 Industrias Anayak
 Industrias Puigjaner
 LauNik

Mecalux
Merquinsa
Metalogenia
Nicolás Correa
North Wind Yard
Ona Electroerosión
Posimat

Insurance Services

Mapfre

Law Firms

Garrigues Abogados
Uría & Menéndez

Media Publishing & Printing

Editorial Everest
Grupo Santillana de Ediciones
Planeta Internacional

Medical Equipment & Supplies

Izasa Distribuciones Técnicas
La Leonesa Infusiones
Pharmamar
Soria Natural

Office Machines & Supplies

Comexi

Packaging Equipment & Materials

Antonio Mengibar
Compañía Envasadora Loreto
Ramondin
Talleres Daumar
Ulma CyE
Vidrio Ecológico

Petroleum Products

Repsol YPF

Plastics & Plastic Products

Derivados del Propileno

Primary Metal Products

Acerinox
Aleaciones de Metales
Sinterizados
Tubacex
Tubos Reunidos

Processed Food

Aceites Borges Pont
Agro Aceitunera
Agro Sevilla Aceitunas
Ángel Camacho
Arco Bodegas Unidas
Bioibérica
Bodegas Torres (Miguel Torres)
Campofrío Alimentación
Cerezo Berzosa
Chupa Chups
Codorniu
Embutidos Palacios
Euromed
Expafe
Freixenet
Grupo Pascual
Leng d'Or
Sos Cuétara
Torres y Ribelles
Unión Vitícola Marqués de
Cáceres
Zumoval

Security & Safety Equipment

BTV

Software & Hardware

Afina Sistemas Informáticos

Indra Sistemas

Teaching & Education

Fundación Cristóbal Gabarrón

**Telecommunications Equipment
& Services**

Afinisa

Amper

Amplex Ingenieria de

Radiofrecuencia

Latinia Interactive Business

Inysa

Telefónica

Upscon Iberica

Ziv Aplicaciones y Tecnología

Tobacco Products

Altadis

Transportation Services

Construcciones y Auxiliar de

Ferrocarriles

Danzas Corp.

Fletamientos y Cargas

Ibercónдор

Iberia

Logfret Spain

Patentes Talgo

Spanair

Transportes Fluiteris

APPENDIX 3
NET FOREIGN DIRECT INVESTMENT IN SPAIN BY SELECTED COUNTRIES, 1993-2004
(MILLIONS)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
France	354	235	453	609	71	551	131	766	1,105	1,258	539	-101
Germany	571	289	-22	163	293	432	458	174	407	2,227	593	599
Luxembourg	91	129	115	76	28	398	1,594	924	842	1,729	839	-1,082
Netherlands	444	923	1,429	471	1,477	44	997	713	3,772	15	-617	1,785
UK	403	446	389	261	222	123	1,967	12,909	391	588	2,096	1,127
EU-14 total	2,476	2,523	2,738	2,079	2,117	2,656	5,457	15,948	8,837	7,158	4,891	1,808
US	372	462	437	321	404	186	408	375	294	-8	477	122
Rest	725	253	369	369	487	832	43	905	434	396	331	-1,348
Total	3,546	3,237	3,543	2,769	3,008	3,654	5,908	17,228	9,565	7,562	5,699	582
US as % of total	10	13	11	13	5	7	2	3	NA	8	21	21

Figures since 1999 include direct investment in listed shares. The figures for the whole period exclude investment in Special Purpose Entities whose sole function is to hold foreign equity. These vehicles for international companies enjoy tax advantages if certain conditions are met. The large amounts in them inflate investment figures and they must be discounted in order to obtain the real picture of direct investment as it is generally understood. The table's figures cover investments in branches and in equity stakes in non-publicly quoted companies if the stake is equal to or exceeds 10%. They are for the immediate investing country and not the ultimate investing country.

Source: Foreign Investments Registry.

APPENDIX 4
NET SPANISH DIRECT INVESTMENT ABROAD BY SELECTED COUNTRIES, 1996-2004
(MILLIONS)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
France	32	72	176	683	1,812	791	453	633	3,953
Germany	85	59	357	1,399	1,349	1,781	5,834	727	309
Netherlands	369	1,187	888	1,247	2,502	6,18	2,357	347	3,086
Portugal	459	711	615	430	1,348	665	688	1,433	481
UK	24	195	547	366	1,128	578	-1,724	3,281	16,268
EU-14 total	1,047	2,191	3,395	5,231	9,397	12,346	7,242	8,615	25,245
US	387	396	636	60	7,152	1,211	1,518	1,456	582
Argentina	629	2,525	285	15,342	2,926	-124	585	442	84
Brazil	470	502	3,997	4,951	11,354	1,373	-1,698	19	453
Mexico	42	163	374	1,237	3,946	1,833	1,329	-702	3,551
Total Latam	1,496	5,218	6,061	27,091	21,423	6,121	1,568	2,088	4,786
Rest	272	182	2,759	2,846	2,407	1,178	3,298	2,152	1,065
Total	3,202	7,987	11,025	35,228	40,379	20,856	13,626	14,311	31,678
US as % of total	12	5	6	0.2	18	6	11	10	2

Figures since 1999 include direct investment in listed shares. The figures for the whole period exclude investment in Special Purpose Entities whose sole function is to hold foreign equity. These vehicles enjoy tax advantages if certain conditions are met. The large amounts in them inflate investment figures and they have to be discounted in order to obtain the real picture of direct investment as it is generally understood. The table's figures cover investment in branches and in equity stakes in non-publicly quoted companies and in publicly quoted companies if the stake is equal to or exceeds 10%. The figures are for the immediate investing country of destination and not the ultimate investing country of destination.

Source: Foreign Investments Registry.

APPENDIX 5
US DIRECT INVESTMENT ABROAD, 1994-2004
(US\$ MILLIONS)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
All countries	73,252	92,074	84,426	95,769	131,004	209,392	142,267	124,873	134,946	119,406	229,294
France	2,634	5,196	4,463	2,971	4,323	2,111	1,967	476	4,604	-790	9,757
Germany	2,863	3,349	1,956	2,464	3,051	5,658	3,811	11,823	2,416	2,578	9,956
Italy	2,646	2,506	416	123	-910	3,729	6,404	1,767	1,230	4,287	3,477
Luxembourg	517	-477	1,041	2,444	4,084	4,535	2,474	20,402	10,485	7,606	4,533
Netherlands	7,605	9,386	6,308	12,450	22,213	13,320	961	12,025	14,779	14,207	12,598
Portugal	252	137	245	86	-16	782	532	252	462	-84	-12
Spain	1,551	D	1,183	204	1,821	5,689	2,249	1,642	3,032	1,523	3,953
UK	9,615	13,830	16,421	22,961	29,094	47,265	28,317	7,890	15,265	23,983	22,926
Rest	57,164	13,693	52,393	52,066	65,492	126,303	95,552	68,596	83,174	66,096	162,106
% to Spain	2.1	NA	1.4	0.2	0.1	2.7	1.6	1.3	2.2	1.2	1.7

US direct investment abroad is the ownership or control, directly or indirectly, by one US resident of 10% or more of the voting securities of an incorporated foreign business enterprise or the equivalent interest in an unincorporated foreign business enterprise. These figures are for total capital and consist of equity capital, intercompany debt and reinvested earnings. (D) Suppressed to avoid disclosure of data of individual companies.

Source: Bureau of Economic Analysis.

APPENDIX 6

FOREIGN DIRECT INVESTMENT IN THE UNITED STATES, 1994-2004
(US\$ MILLIONS)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
All countries	45,095	58,772	84,455	103,398	174,434	283,376	314,007	159,461	71,331	56,834	95,859
France	4,394	2,725	7,244	10,951	11,368	29,834	51,001	14,546	6,035	3,306	9,234
Germany	6,116	7,908	19,616	11,110	42,986	23,478	14,054	40,206	-1,149	8,876	1,545
Italy	143	197	333	-262	1,024	862	1,978	498	259	-476	980
Luxembourg	1,256	3,429	-2,230	5,393	13,819	6,887	30,864	-21,498	-3,775	13,694	-538
Netherlands	-2,006	-1,526	12,262	12,344	6,533	41,689	33,517	24,036	4,472	5,562	6,192
Spain	435	789	60	330	361	309	6390	-170	66	672	515
UK	10,063	16,255	14,404	15010	60,335	108,566	82,652	2,819	26,515	-5,649	19430
Rest	20,682	8,347	28,306	14,68	17,3498	71,751	94,551	55,778	32,423	30,849	58,501
% from Spain	0.96	1.3	0.07	0.3	0.2	0.1	2.0	-0.1	0.09	1.1	0.5

Foreign direct investment in the United States is the ownership or control, directly or indirectly, by one foreign resident of 10% or more of the voting securities of an incorporated US business enterprise or the equivalent interest in an unincorporated US business enterprise. These figures are for total capital and consist of equity capital, intercompany debt and reinvested earnings.

Source: Bureau of Economic Analysis.

APPENDIX 7

SUMMARY OF DISBURSEMENTS OF AMERICAN AID BY GOODS FINANCED,
1951-1962 (US\$ '000)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	CUMUL. 1951-1962
FOODSTUFFS	27,222	-	-	-	15,229	42,547	49,749	25,086	30,178	23,670	41,973	16,236	271,935
Cotton	4,980	11,985	6,558	20,754	52,945	33,093	19,443	50,517	22,240	19,413	14,993	14,993	271,914
Coal	-	3,495	-	1,756	4,095	2,334	6,467	7,457	6,620	6,900	1,480	-	40,604
Other inputs	3,029	471	-	6,397	10,641	65,854	60,857	84,527	70,770	20,972	19,562	17,742	360,822
SUBTOTAL INPUTS	8,009	15,951	6,558	28,907	67,681	101,281	86,767	142,501	99,630	47,285	36,035	32,735	672,340
CAPITAL GOODS	1,887	8,263	13,730	10,317	25,000	37,428	19,857	22,356	30,087	53,350	34,888	54,747	311,910
Shippings				113	4,200	5,952	10,572	7,707	6,310	3,496	5,726	1,496	45,572
Technical assistance			135	295	710	920	870	1,060	1,010	875	1,175	750	7,800
TOTAL	37,118	24,214	20,423	39,632	112,820	188,128	167,860	198,710	167,215	128,676	119,797	105,964	1,310,557

Source. The Political Economy of Conditional Foreign Aid to Spain, 1950-1963, Oscar Calvo- González, unpublished Ph. D. dissertation, 2002.

APPENDIX 8

COMPARATIVE STATISTICS FOR THE UNITED STATES
AND SPAIN*

	United States	Spain
Population (millions)	291	41.1
Population growth rate (%)	0.99	1.64
Foreign population (immigrants as % of total population, 2002)	11.8	3.1
Gross national income (\$ billions)	\$11,012	700.5
Per capita gross national income	\$37,870	\$17,040
Real GDP growth (2004, %)	4.4	3.1
Household saving rate (% of disposable household income)	1.36	10.6
Share of trade in GDP (average of imports and exports of goods and services, %)	11.7	28.8
Share of total OECD merchandise trade (%)	9.8	2.3
Cumulative FDI inflows from OECD countries, 1990-2003 (\$ bn)	1,507.9	232.7
Cumulative FDI flows in OECD countries, 1990-2003 (\$ bn)	1,560.7	243.4
Employment rate (persons in employment as % of working age population)	71.2	60.7
Standardised unemployment rate (% of civilian labour force)	5.0	11.3
Spending on R&D (% of GDP, 2004)	2.7	1.1
Export share of high technology industries (% of total exports of manufacturing goods, 2002)	36.4	11.0
Government net borrowing/net lending, % of GDP (negative figure indicates deficit)	-4.6	0.4
Total tax revenue (% of GDP, 2001)	28.9	35.2
Life expectancy (years)	77	80
Public expenditure on health (% of GDP, 2002)	6.6	5.4
Public expenditure on education (% of GDP)	5.7	4.4

(*) All figures unless otherwise stated are 2003.

Source: World Development Indicators 2005.

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