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In this second wave of the pandemic, the data in the media remind us that the tragedy remains unresolved. Forecasts of economic crisis worry and affect citizens. But how have the large Spanish companies that bet on globalisation been affected? Specifically, those companies that were nourished by and contributed to the economic boom that drove Spain's transition from an underdeveloped country to one with a per capita domestic product at similar and sometimes higher levels than the European average. But first we should ask what made that great business success possible?

1. In the 1990s, attack was the best form of defence

It was 1985 and the cover of *Actualidad Económica*, the main economics magazine of the day, bore the title "The New Napoleons". The metaphor compared Napoleon's invasion of 1808 with the large-scale entry of French capital following the opening up of the Spanish economy. Following that *invasión* half of Spain's largest companies were French and they dominated in areas such as the automobile and retail sectors. Carrefour, Decathlon, Leroy Merlin, Renault, Peugeot and Michelin became the country's leading brands and still are.

Although the key players deny it, this seems to have acted as a trigger for the internationalisation of major Spanish companies. The then president of Telefónica, Cándido Velázquez, decided to explore possible purchases abroad. He tried his luck with telecommunications tenders in Greece, Belgium and Chile. And while his efforts failed in Europe, in 1990 the purchase was made of a controlling stake in Chilean fixed line operator CTC. So began a phase some scholars called the *reconquista*. Next came the purchase of Telefónica de Argentina. The following year, Telefónica was part of a consortium, led by GTE, that bought CANTV, Venezuela's national telecommunications company. In 1994, it paid \$1.8 billion for a controlling stake in Telefónica de Perú. The crown jewel was entering Brazil in 1998. When Brazil's Telebras was broken up and auctioned off in July 1998, the Spanish company offered \$5.3 billion for the purchase of fixed-line operator Telesp, cell operators Tele Sudeste Celular and Tele Leste Celular. The oil company Repsol followed suit and bought Argentina's YPF the following year.

So should we proclaim victory for these companies? It is true that an aggressive international expansion occurred that was first Latin, then European and, more recently, American. On the other hand, the companies grew as a result of boom times in their domestic market.

In January 1999, Brazil decided to liberalise the Brazilian real, and it fell by 32%. Telefónica managed to weather the Brazilian storm and later the Argentinian crisis of 2002, when the peso went through the same process and devalued by 100% in a few months.

2. The golden age of the new millennium

In this second *golden age*, Telefónica consolidated its positions in the companies it had bought and became a majority partner. Soon, it formed a winning duopoly in the region alongside Mexico's América Móvil, with both expressing their commitment to regional development and growth. Latin success encouraged European expansion, and in 2005 Telefónica bought the English company O2.

Telefónica paved the way for other large Spanish companies such as Repsol, Banco Santander, BBVA and Endesa (later sold to Italy's Enel), Iberdrola and pharmaceutical company Grifols. The latter entered Chile in 1990, Mexico and the United States in 1993, and Brazil in 1998. Today, it is one of Spain's most globalised companies, with a presence in 35 countries on four continents. It was in Latin America that these firms learned the process of internationalisation and created the global ambition to follow the example of the pioneering companies in looking to make it big in the Americas. The region was their natural market, with a shared language – or a similar one in the case of Portuguese – a common history and a similar culture. Information flows faster in such markets, making economic ties easier. It is no coincidence that it also worked the other way and Spain became a stepping stone to Europe. Madrid hosts the European headquarters of the Mexican cement company Cemex, while Portugal is a launchpad for Brazilian companies in Europe. But what were the mechanisms of internationalisation?

3. How do we get in? The greenfield route towards Latin America and acquisitions in Europe

The two most common forms of international expansion are greenfield, in other words direct investment, and mergers and acquisitions. Greenfield investments create new subsidiaries that generate their own income. Mergers and acquisitions are purchases of or fusions with other companies. Although databases such as fDi Markets from the *Financial Times* have only gathered data since 2003, they give us a sense of where such investments head. As of August 2020, Latin America accounts for five of the ten countries receiving most investment. Mexico is the leading destination for Spanish greenfield investment, followed by Brazil, the United States, Chile and the United Kingdom. Widening the focus to all countries, Spanish direct investment in greenfield projects in Latin America represents 42% of the total.

As well as Spanish companies' substantial presence in Latin America, the data show that Spanish companies have diversified in other countries. With the purchase of O2 in the UK, Telefónica entered Europe, and then came the United States. The US is now the third-largest destination, accounting for 7% of Spanish capital expenditure in the past 17 years (see next section).

Table 1. Destination countries for announced Spanish greenfield investment: January 2003–August 2020

Destination country	Number of projects	Capital expenditure	Percentage of total	Jobs created
Mexico	508	43,903.8	12%	123,581
Brazil	298	27,705.7	8%	66,203
United States	623	26,088.3	7%	40,524
Chile	212	20,397.7	6%	26,138
United Kingdom	309	17,239.6	5%	16,469
Colombia	243	11,838.1	3%	40,026
Portugal	228	11,722.2	3%	21,443
Peru	137	10,979.5	3%	13,978
Romania	97	10,762.8	3%	59,337
China	255	10,246.4	3%	34,639
Total	5,907	347,809.3		818,964

Source: Compiled by the author using 2020 data from fDi Intelligence from the *Financial Times* Ltd for greenfield projects announced and not cancelled. Capital expenditure data (millions of dollars) and employment figures are fDi Markets estimates based on greenfield project announcements. Accessed September 2020.

Which companies are behind these investments? As Table 2 shows, the largest international greenfield investor is Iberdrola, which accounts for 10% of capital expenditures, followed by Telefónica, the construction companies Acciona and Abengoa and, between those two, the oil company Repsol. While they are above all services, construction and tourism companies, the list also includes Gestamp, a car part manufacturer. Gestamp's main customers are European leaders in the automotive sector: Volkswagen, Daimler and BMW from Germany and the French company Renault account for 50% of its sales. The key to its success is being part of a regional value chain, in this case European, well-integrated, efficient and of excellent quality. In this new post-pandemic era, with global value chains being questioned in favour of regional ones, Gestamp is well-placed.

Table 2. Spanish companies investing most in announced greenfield projects: January 2003–August 2020

Company	Number of projects	Total capital expenditure	% of total	Jobs created
Iberdrola	107	35,591.9	10.2%	13,433
Telefónica	202	29,714.8	8.6%	38,307
Acciona	94	15,822.2	4.5%	13,989
Repsol SA	36	15,252.6	4.5%	6,670
Abengoa	52	15,020.7	4.5%	5,720
Endesa	24	7,357.8	2.1%	2,294
Sol Meliá Hoteles	69	6,693.5	2%	17,367
Grupo Santander	136	6,370.2	2%	20,470
Cepsa	7	5,759.0	1.9%	2,493
Gestamp	70	5,746.9	1.9%	10,363
Total	5,907	347,809.3		818,964

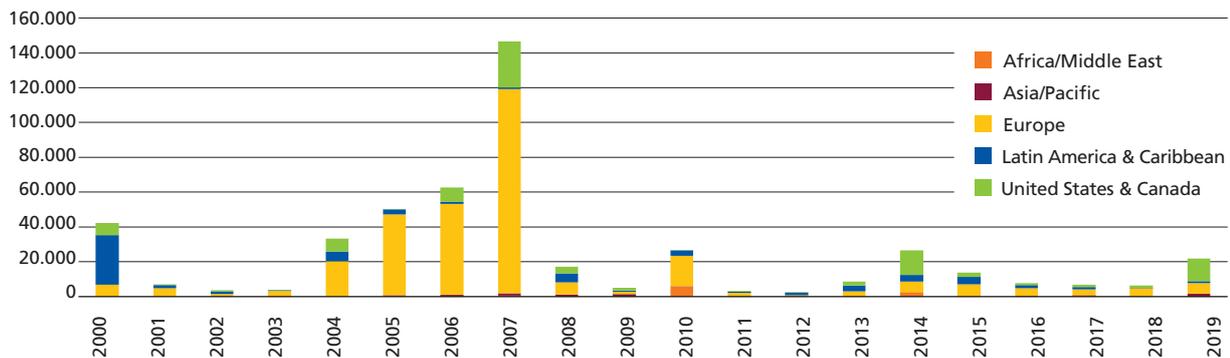
Source: Compiled by the author using 2020 data from fDi Intelligence from the *Financial Times* Ltd for greenfield projects announced and not cancelled. Capital expenditure data (millions of dollars) and employment figures are fDi Markets estimates based on greenfield project announcements. Accessed September 2020.

4. Acquisition is a faster route into Europe and the United States

The greenfield data from the previous section confirm the importance of Latin America as the destination for almost half of Spanish investment. However, in the last 20 years, as the data in Table 2 shows, Europe has been

the main target for acquisitions, followed by the United States. Iberdrola, BBVA, FCC and Telefónica are four of 700 Spanish companies in the United States, making Spain the seventh-largest investor in the world's biggest economy, with total investment of \$127 billion. The pharmaceutical company Grifols, which entered the United States in 1993, strengthened its presence in October 2020 by purchasing 14 additional plants in the country.

Figure 1. Total value of international mergers and acquisitions announced whose country of origin is Spain, 2000–2019



Source: Author, using data on announced and non-cancelled mergers and acquisitions from Standard & Poor's Capital IQ. Database accessed: September 2020.

While the different Latin American crises mentioned negatively affected the results of Spanish companies, the geographical diversity described above made it possible to compensate losses on one side with profits in other regions.

5. Time to rest on their laurels? The outlook is grey

So should we proclaim victory for these companies? It is true that an aggressive international expansion occurred that was first Latin, then European and, more recently, American. On the other hand, the companies grew as a result of boom times in their domestic market. This triumph is reflected in the presence of nine Spanish companies in the *Fortune 500* ranking of the world's largest global companies in 2020. Spain belongs to the exclusive club of only 32 countries with companies in that ranking. This global expansion is also reflected in Spain's surplus, with its overseas investments much larger than the investments into its domestic market. In that sense, Spain is also part of the small set of countries committed to international expansion as a means of growing, learning and winning in the big league.

However, three challenges complicate the picture in 2020: first, the indebtedness of these companies; second, the crisis caused by the pandemic on both sides of the Atlantic; and finally society is likely to demand that companies make a greater commitment to solving social and environmental problems.

The expansion was built on *debt* and forecasts of growth in the services sector and in the countries in general. As a result, Telefónica's total

liabilities, for example, are \$110 billion. While a long way below the debt leader, AT&T (\$177 billion), Telefónica's debt is substantial enough to affect its credit risk rating. Logically, one of the company's strategic objectives is to reduce debt. In 2019, Telefónica announced that it was reorganising its Latin American assets (except Brazil) and would seek either a strategic partner or an initial public offering.

Other sales have continued. With the same goal of reducing debt, Naturgy, previously Gas Natural Fenosa – which had entered Chile in 2014 – sold its \$3 billion stake in CGE Chile in November 2020 to the Chinese State Grid Corporation of China (SGCC), which already has numerous investments in Brazil. The aggressiveness of Chinese investment in Latin America in electricity, banking and startups has been notable over the past ten years. Despite being a new competitor that was until recently relatively unknown, as well as SGCC, Sinopec and ICBC, Tencent and Huawei are here to stay. Around the same time BBVA sold its American subsidiary to the US bank PNC for \$11.6 billion. In this case, the intention was to consolidate its presence in Spain with the purchase of Banco Sabadell, for which agreement seems unlikely to be reached.

After 30 years of great overseas success, what is behind this change of course? As well as reducing debt, the situation in Latin America has become critical. The impact of the pandemic follows five years in which average growth was just 1.2%. There are several reasons for this disappointing growth: the falling commodity prices on which the region remains dependent, political instability, and discontent in a population that sees no improvement in its situation. And with the pandemic, the forecasts for the region could hardly be worse. The International Monetary Fund expects a contraction of 5.3% in 2020. Employment has fallen by 20% and in some countries reached 40%. As well as no improvement in raw materials prices, the paralysis is worth noting in the travel and tourism sectors. Several airlines like Chile's LATAM, Colombia's Avianca and Aeromexico have filed for bankruptcy.

Meanwhile, the health emergency in the region remains unresolved: Brazil, with 6 million cases, is the third-most affected country in the world, Argentina, Colombia and Mexico have over one million cases, and Peru is approaching that figure. All are among the 12 countries with the world's highest case numbers. The crisis seems likely to hit hard. Another 16 million people are expected to enter extreme poverty – living on less than \$1.9 a day – bringing the total in Latin American to 83.4 million. Social demonstrations that began in 2019 have continued to take hold across the region this year, with radical protests reflecting the discontent in Colombia, Chile, Peru and Guatemala. The economic forecasts for Spain are also pessimistic.

6. Paradigm shift

Moreover, a paradigm shift is occurring in the economic model, partly forced by the crisis, partly because of the rise of Chinese companies that play by other rules. In the unstable balance between governments and markets, for the last 20 years the markets have *ruled*. Government intervention was heresy. But, contrary to the previous orthodoxy, during the

Medium and long-term thinking is needed to create industrial policies that support the trends the pandemic is highlighting. On the one hand, there is a need for quality public services, particularly health and education. On the other, there is the digitalisation into which we have been forced and which will continue, whether we like it or not.

Great Lockdown European governments have stepped in to save their national champions. They have rescued flag carriers like Iberia, Air France and Lufthansa in Germany, and medium-sized and small businesses. In the dark days of March, governments dusted off their so-called *golden shares* in privatised companies. At a time of falling stocks, these allowed governments to block unwanted potential acquisitions. In some countries, including Spain, the government renounced that privilege. This defensive posture is being reintroduced to prevent companies from countries outside the European Union from taking control of companies in sectors considered to be strategic. Repsol, Telefónica and others are thereby protected from being purchased for next to nothing.

But what happens after this exceptional period in which anything goes in order to prevent an economic cataclysm? Medium and long-term thinking is needed to create industrial policies that support the trends the pandemic is highlighting. On the one hand, there is a need for quality public services, particularly health and education. On the other, there is the digitalisation into which we have been forced and which will continue, whether we like it or not. Finally, there is a need to support the weakest with initiatives like the minimum income launched in Spain and to expand social programmes across Latin America.

First and foremost, to emerge from the crisis, all countries need consensus. It is said that the art of politics is to try again where many have previously failed. We need national agreements in which the private sector helps in the efforts to escape an economic crisis of a scale not seen for 100 years. Latin America was once the promised land for Spanish companies, and gave them experience that boosted their global expansion. Ties with Latin America must be maintained with commitments to inclusive development and innovation. On both sides of the Atlantic, Spanish companies will be asked to be part of the solution to the COVID-19 economic crisis. They will be asked to contribute to maintaining and creating jobs and to see the social good as their own good. Their survival also depends on them getting the best out of themselves. To overcome the major health and economic challenges before us, the private, public and civil society sectors must emerge together. Or we may not emerge at all.

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