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## **The Iberian Connection** Strategies for Growth and Co-operation in Spanish-South African Relations

**Tim Hughes and Greg Mills**

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**REPORTS**

# **The Iberian Connection**

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# **The Iberian Connection**

## **Strategies for Growth and Co-operation in Spanish–South African Relations**

Tim Hughes and Greg Mills<sup>1</sup>

### **Executive summary, preface and acknowledgements**

This paper focuses on a single question: With the European Union–South Africa Trade, Development and Co-operation Agreement (TDCA) concluded, what are the areas (and strategies through which) South Africa and Spain can develop their bilateral relationship?

This report makes a number of observations:

- Spanish–South African relations have not realised their full potential for reasons identified in this report, especially in terms of the development of trade and investment linkages.
- Both countries offer conduits for access into wider African and Latin American markets in addition to those of the European Union (EU) and the Southern African Development Community (SADC).
- There has been a level of misperception and a lack of awareness of mutual opportunities.
- Spain offers particular lessons in terms of economic recovery and transitional strategies.

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<sup>1</sup> Please note that the opinions expressed herein are those of the authors alone.

This report highlights a number of ways to realise this potential, notably through:

- The development of joint ventures and investments in mining, infrastructure programmes; wine making and marketing; energy generation and transmission; telecommunications; food processing; retailing; tourism; and banking.
- The development of links and synergy in Latin America and Africa, especially in the mining and banking sectors.
- Lessons from shared experiences of democratisation, economic development and the observance of human rights, as well as the process of regional integration and policy convergence.
- Co-operation on security matters—in intelligence gathering and sharing; combatting terrorism and the narco-trade; illegal immigration; arms manufacturing and sales; and money laundering.
- The establishment of bilateral business associations and the flow of related information.
- The prospect of diplomatic training opportunities (especially in language) and training in tourism; sports development; and the promotion of films and culture.

The concept for this paper was developed by the South African Institute of International Affairs (SAIIA) in collaboration with the Spanish Embassy in Pretoria (South Africa), the Confederation of Employers and Industries of Spain (CEOE) and the *Instituto Español de Comercio Exterior* (ICEX). Special thanks go to the ambassador of Spain to South Africa, HE Miguel A Fernandez de Mazarambroz, the counsellor at the Embassy, Manuel Duran Gimenez-Rico, and the CEOE president, José Maria Lacasa.

Research material for this paper was gathered during a visit to Madrid in September 2001. Appreciation is expressed to the CEOE and the Ministry of Foreign Affairs of the Kingdom of Spain, the Spanish Tourism Board, as well as the South African Embassy in Madrid and particularly HE Ambassador Dick van der Ross, for facilitating the trip and the itinerary.

## Introduction

*We believe and are confident in this future of the South Africa nation and we see it as a source of hope for the region.*

King Juan Carlos of Spain,  
South African Parliament,  
February 1999.

*We don't understand each other very well. With Africa, we think tribal; with Spain, you think Flamenco.*

Spanish Businessman, Madrid, October 2001

Contemporary, post-apartheid South African–Spanish relations have been coloured by the negotiations over the European Union–South Africa TDCA. Spain, along with other southern Mediterranean fruit and wine producing countries, was identified by Pretoria's negotiators (and the media)<sup>2</sup> as being resistant to the trade deal; exploitative in terms of pursuing the linked fishing protocol; and protectionist regarding the use of the sherry label.

Yet, as the dust settles around the trade deal, there is potentially much to be gained from closer bilateral and multilateral co-operation with and through Spain. Indeed the time is ripe for a concerted re-examination of Spanish–South African relations, with Spain currently developing its new strategic international relations plan and also assuming the presidency of the EU in January 2002. These advantages are not academic. Since 1994, bilateral trade links have expanded exponentially, and in South Africa's favour. The total trade value was R4,759 million in 1999, with South African exports to Spain totalling R3,078 million. Trade grew by 160% overall from 1994–99, with South African exports up by 146% over this period.

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<sup>2</sup> See, for example, 'EU–SA trade talks spill into acrimony', *Sunday Times Business Times*, 20 September 1998; 'Fish row looms between EU and SA', *Sunday Times Business Times*, 28 March 1999; 'EU trade deal in danger of foundering', *The Star*, 11 October 1999; 'EU angers SA team with unilateral move', *Business Day*, 25 July 2000.

The EU-SA TDCA resulted in a 35% increase in South African exports to the EU between 1999–2000. That follows growth of 20% in the previous year. EU exports to South Africa grew by 20% between 1999 and 2000. This resulted in a trade surplus of more than R17 billion in South Africa's favour, up from R6 billion in 1999.

South Africa increased its citrus exports by nine percent (valued at R120 million), cornering 27% of all EU citrus imports in 2000. Fruit juice and grape exports increased by 53% (from four percent to 23% of the EU market respectively) and wines by 23% (R300 million) to a 14% share. Flat-rolled stainless steel led the South African exports to the EU in 2000, soaring by 115% (R570 million), with local South African companies now supplying one-third of such imports to the EU. Even without the fisheries agreement, fish product exports rose by 20%, doubling their share of the EU market over the past five years. Gold, platinum, coal and diamonds represent 46% of South Africa's exports to the EU. Finally, the best performer in terms of increases was filtering and purifying equipment, growing by 74% between 1999–2000, or an additional R1.8 billion, to secure 28% of all related imports into the EU.<sup>3</sup> Indeed, Spain's relationship with South Africa has to be viewed within the context of the importance of the EU's overall relationship with the country.<sup>4</sup>

With this in mind, this paper examines the background to Spanish–South African relations, the status quo, and potential areas and strategies for co-operation. Critically, it attempts to identify blockages to improved ties between the two

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<sup>3</sup> This information was supplied by Richard Gibb. See also 'Exports to EU surge by 35%', *Engineering News*, 15 June 2001; and *Business Day*, 11 June 2001.

<sup>4</sup> The EU representative to South Africa, Ambassador Michael Laidler, speaking in 2000, emphasised the importance of the EU to South Africa, noting: 'We still remain as we have been since 1994, South Africa's largest trade, economic and aid partner, accounting for some R1.8bn of development aid to the country each year in the form of grants and loans...There is about 70% of inward direct foreign investment and more than 40% of trade. Even before the free trade deal, the European Commission and European Investment Bank (EIB) together provided over 50% of all aid to South Africa'. See *Business Day*, 31 March 2000 on <http://www.bday.co.za/bday/content/direct/1,3523,590524-6078-0,00.html>.

countries, and new areas and ways of expanding contacts between Spain and South Africa where the maximum diplomatic and commercial value could be added and gained. The paper also attempts to be forward-looking and proactive in examining the respective strengths and opportunities present in this relationship and offers a path to move the relationship away from one of competitiveness to one of co-operation and complementarity.

The paper is divided into two main sections. First, the historical background to the relationship (both pre- and post-apartheid), the extent of (and growth in) trade and investment ties, and the nature of other linkages such as arms collaboration, tourism and education. The paper also provides a 'snapshot' of the state of bilateral agreements between Spain and South Africa. Second, a discussion of the potential areas and strategies for co-operation, in terms of both bilateral and multilateral linkages including those with, and through, third parties.

## **Historical overview and the status quo**

Spain and South Africa share parallels in their experience of political transition from authoritarian, right-wing leadership to inclusive, participatory government. Both countries have also moved from periods of international and regional isolation to full integration, resulting in their playing leading roles in their respective regions and beyond. Both countries now boast progressive and liberal constitutions. Indeed South Africa took a keen interest in the Spanish constitution when drafting its own. In terms of political representativeness, Spain has made great strides in the emancipation of women and its Parliament now has one of the highest proportions of women members in the world. Like South Africa, Spain has had to confront social and economic underdevelopment, where its development indicators in the 1950s were akin to those of a third world country.

Between 1970–79, average life expectancy in Spain was 72.9 years. This improved to 78.1 years between 1995–2000. Today Spain ranks as the fourth highest in the world. It now has the second highest ratio of doctors per capita in Europe. Literacy rates leapt from under 50% in 1960 to 97% today. In 1960, just four percent of Spanish households owned a car. By 1977, this figure had increased to 51%, and again to 472 vehicles per 1,000 people by 1999 (South Africa is 143 per 1,000). In the 1950s a culture of poverty affected in excess of 70–80% of the Spanish population. Spain ranks 21<sup>st</sup> out of 174 countries on the United Nations *Human Development*

*Index*, listing countries in terms of life expectancy and quality of life. (South Africa is 94th.) As the Spanish economy developed, fertility rates for women declined from 2.9 per 1,000 women between 1970–75 to 1.2 between 1995–2000 (South Africa was 5.4 and 3.1 respectively).<sup>5</sup>

Although South Africa is similar to Spain in terms of its population size, its economy and social situation are quite different. Literacy is around 85%, but life expectancy has declined from 62 in 1990 to 48 today, partly as a result of HIV/Aids.<sup>6</sup>

<b>Spain and South Africa: A snapshot comparison<sup>7</sup></b>		
	<i>Spain</i>	<i>South Africa</i>
Population (m)	40	42
GDP (\$m)	553,230	133,461
GNP per capita (\$)	14,100	3,310
GDP growth annual (%)	3.8	0.5
Life expectancy	78	63
FDI (\$m)	-	550
Trade/GDP ratio (%)	37.3	16.1
Tourist numbers (& income in \$bn)	61m	5.9m
Size of armed forces	193,350	82,400

In both countries, the church has played a significant role; both as a source of unity and also in terms of political involvement. The military, too, has been seen both as a part of the socio-political problems and, ultimately, as an important part of the development of democracy. Both countries experienced negotiated and peaceful political transitions (largely against conventional wisdom at the time),

<sup>5</sup> See United Nations Development Programme (UNDP), *Human Development Report 2001*. New York: UN with Oxford University Press, 2001.

<sup>6</sup> These figures are obtained from The World Bank, *World Development Indicators*. CD-Rom Version, 2001.

<sup>7</sup> Figures supplied by the World Bank. See The World Bank, *Little Data Book, 2000*. Washington DC: The World Bank, 2000. The figures are for 1998 unless otherwise stated.

where compromise and reconciliation marked a process expected to be characterised by division and exclusion.

Both countries were—and South Africa still is to some extent—'corporatist' states, characterised by grand alliances between state, labour, business, the military and the church. In both cases, the democratic process was driven, in part, by the unions.

There are obvious differences between the two, however.

Ironically, Franco's death at the age of 83 on 20 November 1975, and Spain's emergence from four decades of isolation,<sup>8</sup> virtually coincided with the fall of right-wing rule in Portugal and the collapse of Portuguese rule in Africa, which in turn led to increased regional and international isolation of apartheid South Africa. As Pretoria's regional role became characterised by martial responses to challenges (internally and regionally) to white rule, so its international position and its internal economic stability deteriorated.

For Spain, Franco's death—like the death of apartheid twenty years later—coincided with a radical change in the country's external and domestic economic and political fortunes. Spain acceded to the North Atlantic Treaty Organisation and the European Community (EC) in 1986. Membership of the EC placed Spain—through EC regional and cohesion funds and the Common Agricultural Policy (CAP)—on an entirely different and more promising developmental path.

Finally, both countries have had to deal with contending national identities within their boundaries. Spain has 17 regions ('autonomous communities') enjoying varying degrees of autonomy. The Basque region is, in this regard, the most problematic, because of its separatist aspirations. South Africa has also had to deal with this issue, partly through the partial devolution of powers to its nine provinces but also through ongoing liaison and dialogue over such issues as an *Afrikaner volkstaat*.

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<sup>8</sup> See, for example, Maxwell K & S Spiegel, *The New Spain: From Isolation to Influence*. New York: Council on Foreign Relations Press, 1994.

In Spain's first democratic election in June 1977, moderates and democratic socialists emerged as the largest parties. A democratic constitution, promulgated in 1978, recognises and guarantees the right of autonomy of nationalities and the regions of Spain. Each of the 17 regions has its own regional president, Parliament, high court of justice, and regional languages that are recognised as co-official languages. The degree of autonomy enjoyed by the regions is arguably even greater than that of the German *länder*.

Perhaps the best symbolic example of the entrenchment and advancement of the culture of democracy and human rights in both countries is in the pursuit of Augusto Pinochet, the former Chilean ruler, by a Spanish judge, Baltasar Garzón; and in South Africa through the activities of the Truth and Reconciliation Commission (TRC). The latter has many lessons that extend beyond South Africa, including to a number of Latin American countries where, today, Spain has extensive economic interests.

## Recent Spanish economic overview

Despite having undergone limited economic reform from 1959 under the aegis of the International Monetary Fund (IMF) stabilisation plan, Spain was a country of industrial monopolies, where financial rates were regulated and inflation was determined by the government's setting of wage levels. This resulted in economic inefficiencies, a huge state sector and considerable government debt. Post-1975, this situation was dramatically altered through economic liberalisation and pragmatic economic policies. Despite this, however, it should be noted that between 1975 and 1995 there was almost no net job creation in Spain, although the economy absorbed large numbers of women and 'baby boomers' into the formal economy during these years. This situation began to change fundamentally from 1993 when Spain realised that in order for it to meet the requirements of the Maastricht Treaty it would have to bring its government debt down to three percent of GDP. The quickest and easiest way to achieve this was through a programme of privatisation. This process began in earnest in 1995 despite the existence of a socialist government in Madrid. One economist has reasoned that, 'The socialists were embarrassed by this process, but saw the need for it'.<sup>9</sup> Another

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<sup>9</sup> Interview with Diego Cano Soler, Madrid, September 2001.

has commented that, 'Spain tends to reform and act when there is an external imperative to do so and Maastricht acted as such an imperative'. As Spain's acceptance into the EU was set for 1 January 1997, the imperative to meet Maastricht requirements predominated.

In addition, Spain had viewed the English experience of privatisation as a positive one. Some 80% of Spaniards are homeowners and it was essential to bring down crippling interest rates. Spain also took the notion of popular capitalism seriously and was keen to see the growth and development of a broad equity-owning class. One Spanish economist has noted that, 'It was amazing to see everyday people checking the price of their 200 shares on the stock market.' This also had an impact on social and labour relations. A series of labour reforms, seen as 'investor friendly', were also introduced. When asked why the unions agreed to what are at root labour neutralising agreements, one Spanish expert asserted, 'Well they had little choice, it was a case of survival'.<sup>10</sup>

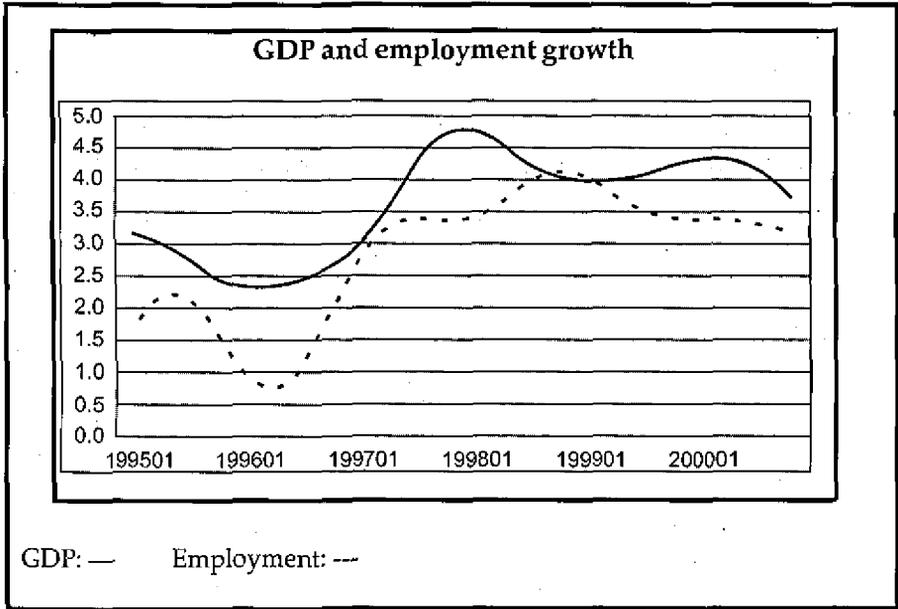
The success of Spanish macro-economic policies has been remarkable, particularly the correlation between GDP growth and employment. For example, since 1995 some 1.3 million jobs have been created. However, while current unemployment in Spain is high by EU standards at 12%, this represents a considerable improvement from a rate of 25% in 1992.

For the past three years Spain's GDP growth has been consistently over four percent and in the past six years, has seldom been lower than 2.5%. A persistent problem of the Spanish economy, however, is that of higher-than-average inflation in relation to other EU countries. This was exacerbated by the 1973 oil crisis and monetary adjustment. During the 1970s, the average inflation rate was some 14%, peaking at over 25% in 1977. During the 1980s, the average rate of inflation dropped to 10% and improved even further during the 1990s to average a little more than four percent. Rates dropped as low as 1.5% in 1997 and 1998.

In essence, Spain achieved in the 1990s the targets set out in South Africa's Growth, Employment and Redistribution (GEAR) macro-economic policy.

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<sup>10</sup> Interview with Jose Ignacio Gafo Fernandez, Madrid, September 2001.



Despite the forging of new investor-friendly labour policies, the conservative government has acted prudently by not tampering with social welfare benefits such as pensions and unemployment benefits. It has, however, tightened the criteria for qualification and the application of these benefits, a move which has popular support.

Thus Pretoria would do well to analyse the Spanish experience, just as it has successfully addressed some of the core challenges facing South Africa. Indeed the political, economic and social revolution that transformed Spain arguably relates more closely to the South African situation than the experiences of any other European state. This alone warrants a closer relationship.

## **The significance of Spain as a European and global actor**

Spain's growing significance as a global actor can be measured in terms of its role in the EU, the United Nations (UN), the reach of the Spanish language, and its economic growth.

On 1 January 2002, Spain assumes the presidency of the EU, and is expected to take a UN Security Council seat in 2003. In 1999, Spain became the 8<sup>th</sup> biggest contributor to the budget of the UN and has also played a prominent role in peacekeeping operations in the Balkans. Spanish is spoken by 400 million people across the globe. It is one of the official languages of the UN. It is also gaining increasing significance in the United States as a second language. Spain is the world's 10<sup>th</sup> largest economic power. Over the past decade its attractiveness as a growing market has been borne out by the fact that from 1990–1998 it attracted some \$84 billion in foreign direct investment (FDI), making it the fourth largest recipient of FDI of the Organisation for Economic Co-operation and Development (OECD) nations. Perhaps some of the lesser-known features of the Spanish economy are that it is the world's fifth largest car manufacturer and has the eighth largest chemical sector.

Spain has positioned itself for sustained growth by investing heavily in its human resources. The country boasts 54 universities with some 95,000 science and engineering students and has the second highest ratio of university students to total population in the EU. This thrust into science and engineering is reinforced by the establishment of 18 technology parks throughout the country housing some 300 companies. In terms of infrastructure, Spain has one of the world's largest networks of highways (some 9,000 km). The country is served by 250 airlines flying to 30 international airports and has 450 international ports serving the Atlantic, European and Mediterranean routes, facilitating maritime trade. As a country for investment, Spain also enjoys a number of competitive advantages over its EU counterparts. One of these is its average hourly labour cost. In assessing average hourly labour costs, analysts use an EU average of 100 as the benchmark. In comparison, Spain's average hourly labour cost is 60, below countries such as Ireland (67), the United Kingdom (76), Italy (82), France (89), The

Netherlands (102), Sweden (110), Belgium (113), and Germany (128).<sup>11</sup> In addition, labour reforms in 1994 and 1997 have produced a highly flexible labour market. Although Spanish workers still enjoy some of the most generous severance settlements in Europe, in 1997 unions and the business sector agreed to important reforms that saw the maximum retrenchment payment reduced and pegged.<sup>12</sup> There is a range of public aid facilities available (dependent on the region) including tax credits, research and development support as well as subsidies on investment at both national and regional level. Combined, Spain provides the third highest return on capital among the OECD countries.<sup>13</sup>

Basic macro-economic table, Spain, % growth <sup>14</sup>			
	1998	1999	2000
GDP	4.3	4.0	4.1
Final consumer spending	4.3	4.3	3.7
Homes & non profit	4.5	4.7	4
Civil service	3.7	2.9	2.6
Gross fixed capital form.	9.7	8.9	5.9
Capital assets	13.4	8.1	5.0
Construction	8.2	9.0	6.4
Domestic demand	5.6	5.5	4.2
Exports	8.3	6.6	10.8
Imports	13.4	11.9	10.4
Contribution to net exports	-1.3	-1.5	-0.1

<sup>11</sup> 'Spain: A country for Business'. Video produced by the Spanish Government.

<sup>12</sup> For further information see Labour Guide 2000, Spanish Ministry of Labour and Social Affairs, or go to <http://www.investinspain.org/labour.htm>

<sup>13</sup> Video, *op.cit.*

<sup>14</sup> Table updated on the 11 April 2001.

<b>Basic macro-economic table, Spain, % growth (continued)<sup>15</sup></b>			
<i>Production, activity and employment</i>			
	1998	1999	2000
Agriculture & fishing <sup>a</sup>	1.5	-3.1	1.5
Energy <sup>a</sup>	2.9	2.2	10.6
Manufacturing <sup>a</sup>	5.3	3.2	3.9
Construction <sup>a</sup>	7.3	8.7	6.3
Services <sup>a</sup>	3.5	4.0	3.6
Market	3.9	4.5	4.0
Non-market	2.4	3	2.5
a value-added			

Spain is a member of the following trade and economic organisations: the EU, the Economic and Monetary Union, the OECD, the World Bank, the IMF, the World Trade Organisation, the United Nations Conference on Trade and Development, the European Bank for Reconstruction and Development, the Africa Development Bank, the Asian Development Bank, and the Inter-American Bank.

Having moved from a position of being Western Europe's most closed economy under Franco, Spain is now a significant trading nation with foreign trade representing 47.7% of GDP. It accounts for 2.3% of the world's imports and 1.8% of its exports. The distribution of Spanish foreign trade by geographic area is depicted below:

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<sup>15</sup> Table updated on the 11 April 2001.

<b>Spanish foreign trade</b>		
<i>Region</i>	<i>Exports (%)</i>	<i>Imports (%)</i>
European Union	69.6	63.1
Latin America	6.1	4.1
United States	4.9	5.3
Rest of World	10.2	10.4
Middle East	2.4	3
Central and Eastern Europe	2.2	1.3
Maghreb	2	3.9
Asia	1.6	3.2
Japan	1	2.9

<b>Spanish GDP by branches of activity</b>	
<i>Branch of activity</i>	<i>Percentage</i>
Services	59.48
Market services	46.2
Non-market services	13.28
Industry	15.65
Net taxes on products	9.68
VAT on products	6.35
Construction	7.99
Energy	3.92
Agriculture and fishing	3.28
Other net taxes on products	3.15

## **The post-apartheid bilateral thaw**

The first Spanish diplomatic representative sent to South Africa was a Chargé d'Affaires in 1951. Spain maintained diplomatic links at the Chargé level until October 1960 at which time the first Spanish Embassy was established. In keeping with international norms, diplomatic relations were relatively low-key, particularly during the years immediately preceding democratisation in South Africa. Under the socialist leadership of Felipe González Márquez (1982-96) Spain played an active part in the international arena against the apartheid government.

In 1992, Nelson Mandela travelled to Spain to receive the prestigious *Príncipe de Asturias* International Co-operation Prize from Crown Prince Felipe. In 1994, Spain sent both Prince Felipe and the minister of foreign affairs, Javier Solana, to the inauguration of President Nelson Mandela in 1994. In 1996, Deputy President Thabo Mbeki travelled to Spain meeting King Juan Carlos and then Prime Minister José Maria Aznar. In turn, South Africa's first lady, Mrs Graca Machel, visited Spain in 1998. As a mark of the normalisation of relations between the two countries, HRH Prince Felipe visited South Africa in 1999.

Although President Nelson Mandela was scheduled to visit Spain, this failed to materialise during his presidency. The greatest single diplomatic success, however, was the visit of King Juan Carlos to South Africa in 1999. Notably, during this trip, a Declaration of Intent between the Kingdom of Spain and the Republic of South Africa was signed, designed to encourage closer relations between the two nations.

Spain's deputy foreign minister, Miguel Nadal Segalá, visited South Africa in December 2000, and met with the minister of trade and industry, Alec Erwin, the minister of environmental affairs and tourism, Valli Moosa, and the deputy minister of foreign affairs, Aziz Pahad. Nadal said that the visit had been useful to 'clear some of the pollution from the air'.<sup>16</sup> During this visit, a Memorandum of Understanding was signed formalising regular political contacts between the two countries. At the time, Erwin agreed to lead a business delegation to Madrid in the near future. By October 2001, this had not yet occurred. Since 1997 only one official ministerial visit has been made to Spain by the arts, culture, science and technology minister, Ben Ngubane, in May 2000, although Trevor Manuel, the minister of finance, has visited Spain to attend a meeting of the African Development Bank. In addition, the South African Embassy in Madrid has not had a dedicated economic counsellor for two years and makes use of the South African representative in Zurich.

There is little doubt that government-to-government contact could be assisted by an increased frequency of ministerial level visits in keeping, too, with the potential of the overall relationship.

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<sup>16</sup> *Business Day*, 4 December 2000.

## Contemporary trade and investment linkages

The TDCA agreement between the EU and South Africa had five pillars—those on scientific and technical co-operation; Lomé membership; fisheries; wine and spirits; and the free trade area. Negotiations on these areas were supposed to be concluded more-or-less simultaneously, although no final agreement has yet been reached on wine and spirits and fisheries. Indeed, European requests for access to South African fish-stocks were denied by Pretoria in 2001—a move seen by some Europeans as inconsistent with the co-operative nature of the relationship.

Spain's reluctance to accept the overall agreement without concluding simultaneous protocols on wines and spirits as well as fisheries, disappointed the South African negotiating team. However, had the roles been reversed, it is unlikely that Pretoria's tough negotiators would have behaved differently. As Eltie Links, South Africa's ambassador to Brussels, noted, 'both sides...found the negotiations tough and complex'.<sup>17</sup>

Yet South Africa's subsequent refusal to grant fishing rights to Spain or any other EU members, together with the stance Pretoria took on the issue of wines and spirits, has resulted in damaging perceptions regarding South Africa's reliability. As the world's largest fishing nation after Japan, Spain clearly held out much hope for improved access to South Africa's rich waters. Perhaps, too, the Spanish position may have been hardened by the approach adopted by South Africa during the 1995 negotiations on the construction of corvettes. In March 1995, South Africa announced that the Spanish bid was the most cost-effective, yet within a month the decision to acquire the corvettes had been shelved and the contract was eventually awarded to Germany in 1999. In the words of a leading Spanish businessman and former diplomat, the South African treatment of the corvette question had 'hurt Spain's national pride and still leaves us mystified'.<sup>18</sup>

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<sup>17</sup> For details of the agreement and the background, see Bertelsmann-Scott T, Mills G & E Sidiropoulos, *The EU-South Africa Agreement: South Africa, Southern Africa and the European Union*. Johannesburg: SAIIA and the CWCI, 2000.

<sup>18</sup> Interview with authors, Madrid, September 2001.

Nonetheless, in spite of these differences and difficulties (and possibly related to the relative lack of contact) there is much promise for the bilateral trade and investment relationship.

Spain is South Africa's 15<sup>th</sup> most important export market. Spain ranks 19<sup>th</sup> in volume of foreign imports to South Africa.<sup>19</sup> There has been a considerable increase in bilateral trade and investments, particularly (and perhaps ironically) since the EU-South Africa IDCA took effect. Indeed, some members of Spanish industry believe that the increase in trade with the EU overall has been at their cost rather than at the cost of their northern European counterparts, hence their sensitivity to various items in the negotiations in the first instance. Yet Spain provides unique insights into the operation of, and access to the EU. It too has had to meet very stringent requirements and has done so in an exemplary manner. It has invaluable lessons to teach South African (particularly in the medium-sized business sector) regarding matters such as EU bureaucracy, regulations and the Euro single currency.

The top ten South African exports to Spain over the past five years listed in order of importance by value are: coal, ferro-alloys, fish,<sup>20</sup> vanadium or zirconium ores, paper and board, machinery, manganese ores, granite and sandstone, and fruit.

The top ten Spanish exports to South Africa over the past five years in order of importance by value are: motor vehicle parts, glazed ceramic tiles, pneumatic tyres, wire cable and electrical conductors, motor vehicles, paper products, yachts, pumps and compressors, and tubes and pipes.

A number of trade missions have visited South Africa in recent years. A further programme of presentations and seminars for 2002 and co-ordinated by CEOE and ICEX together with other business associations such as the Federation of Food and Drink Industries (FIAB), is being considered. The potential of this visit for both countries is considerable, as it would provide an opportunity for Spanish business to penetrate the South and southern African markets which are made up

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<sup>19</sup> World Trade Atlas figures supplied by South African Embassy Madrid.

<sup>20</sup> Of concern is the withdrawal of South African Airways freight service to Madrid due to the route being reportedly uneconomical to fly frozen fish to Spain and return unladen.

of some 195 million people, and also for South African businesses to learn from the experiences of Spanish companies conducting business in the EU as well as in Latin and South America, in particular.

Trade Ties (ZAR millions—nominal values) <sup>21</sup>						
	1995	1996	1997	1998	1999	2000
SA exports	1,704	2,763	2,993	2,611	3,078	4,808
SA imports	808	1,154	1,310	2,274	1,684	1,989
Total	2,512	3,917	4,303	4,885	4,759	6,797
% increase over previous year	37	56	10	13	-2.5	14.5

Whilst not extensive, Spanish business operations in South Africa date back at least 30 years, as is the case of the fishing company, Pescanova.<sup>22</sup> Pescanova controls over 50% of the Spanish frozen fish and derivatives market. South African Imperial Cold Storage retains 21% of the capital of Pescanova which has a fleet of some 140 boats, seven factories and 25,000 retail shops. In Namibia, Pescanova has built a hake filleting factory with a capacity of 210,000 tonnes, 90% of which is exported to Spain. Spain accounts for 87% of all African fish imported to the EU. The value of these imports was @ 420 million between 1993 and 1997.

A joint venture in the fishing industry has been entered into between Spanish Company Freimar and South African company Indo Atlantic. In July 2001, Spain's Acerinox, the third largest stainless steel group worldwide, purchased a 64% stake in Columbus Steel for @ 232 million. The chief executive of Columbus said at the time that this was a 'vote of confidence' in the plant.<sup>23</sup> Acerinox may, in time, boost its stake to 100%.

It is encouraging to note the high regard in which large Spanish companies hold major South African businesses, its engineers, professionals, as well as its mining,

<sup>21</sup> See *South African Yearbook of International Affairs* 2000/01. Johannesburg: SAILA, 2000.

<sup>22</sup> For details of Spanish investments worldwide, see <http://www.mcx.es/POLCO>.

<sup>23</sup> *Business Day*, 26 July 2001.

manufacturing and power generation sectors, and the increase in levels of Spanish investment especially in the South African construction sector.

In 2001, the Spanish state-owned development agency, *Compania Española de Financiación del Desarrollo* (Cofides), and the Spanish toll-road contractor, Grupo Dragados, were announced as the lead shareholders in the R3.2 billion Bakwena Platinum toll highway linking Warmbaths, Pretoria and Lobatse in Botswana.

This project is expected to generate 15,000 jobs and benefit over 300 SMMEs. The chief executive of Bakwena said that 'this is an important investment breakthrough with 50% of the equity being sourced offshore. This is a great vote of confidence in South Africa's economy and the future'. South African partners include the Royal Bafokeng nation, Murray & Roberts, the Public Investment Commissioners, Concor Holdings, and Real Africa Holdings.<sup>24</sup> Grupo Dragados is one of the world's leading construction and concessioning companies. It is the 22<sup>nd</sup> largest construction and engineering group globally and the 23<sup>rd</sup> largest in international construction. Thus its involvement in the Platinum Highway project, with its 24-year concession, is important not only for its direct utility, but also for its potential to attract other Spanish companies into South Africa. The proposed light railway between Johannesburg and Pretoria has also attracted the attention of several large Spanish companies.<sup>25</sup> Grupo Dragados is also participating in a joint venture in Jamaica with South African construction company Grinaker LTA. Spanish engineering company Tecnicas Reunidas International has also entered into a venture with Anglo American Corporation to provide advanced technology in the \$450 million Scorpio Zinc Project in Namibia. Union Fenosa has also established a hub in Johannesburg for its Southern African operations.

In December 2000, Spain's Deputy Foreign Minister Nadal said that, 'Spain's economy has reached a level of maturity which makes investors want to look beyond their traditional areas of activity'. Nadal hoped that tourism would serve as a 'trail blazer' for increased Spanish investment in South Africa. The South

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<sup>24</sup> *Business Day*, 31 August 2001.

<sup>25</sup> Interviews with Grupo Dragados and the National Spanish Association of Manufacturers of Capital Goods (SERCOBE), Madrid, September 2001.

African Embassy in Madrid and the Zurich-based economics counsellor have recently commenced a programme to boost Spanish investment into South Africa.

Despite the attractiveness of Spain as a European country of investment, South African business has taken little advantage. The major companies which have invested in Spain are reportedly: Sappi, Barlows (Finans Auto), Anglo American, Boart International, Safmarine, and Alexander Forbes.

## Tourism, culture and education

Spain is a success story of global tourism from which South Africa could learn and gain much. Tourism accounts for approximately 10% of Spanish GDP and the sector employs 9.5% of its workforce. Spain attracts some eight percent of global tourism, placing it second only to France as a tourist destination of choice, earning the second highest revenue from tourism after the US. Spain receives some 62 million visitors a year, which is more than ten times the number of tourists visiting South Africa. Most of Spain's tourists come from the EU. One vital element of Spanish tourism is that it has provided the country with foreign exchange, which has in turn helped to strengthen Spanish banks and left them well positioned to assist Spanish businesses in expanding their global operations.

By comparison, the tourism sector contributed \$8.8 billion to South Africa's GDP in 1998 with 5.9 million tourists visiting, a 10% increase over the previous year.<sup>26</sup> Of this number, 1.6 million are from outside the African continent.

The Spanish tourist boom was originally built on the back of sun-seeking British, German and other northern European tourists, which led to the construction of concrete beachfronts along the Costa del Sol. However, Spain has made an effort to attract higher value tourists, notably to inland areas. This thrust has been facilitated by the extensive freeway network and infrastructural projects including the high speed Seville to Madrid train which is to be expanded to link with the French border.

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<sup>26</sup> 'Tourism gain a success story for the new SA', *The Star*, 12 February 1999.

Spain has benefited greatly from successfully staging historic events such as the 1992 Barcelona Olympic Games, which, amongst other things, resulted in the Catalonian city becoming the third most popular tourist city in Europe. Should South Africa pursue its interest in hosting the 2012 Olympic Games and the 2010 soccer World Cup, there are many positive lessons regarding infrastructural development to be learnt from the Spanish experience.

Some of these lessons will be imparted through the Spanish government-funded South African Tourism Institute, based in Johannesburg, which was established in May 2001. The investment in the Institute was made by the Spanish Agency for International Co-operation (SATI). The SATI aims to develop the skills of the 1,500 on-the-job trainers and assessors currently working in the South African tourism sector. This initiative forms part of a four-year strategic plan earmarking South Africa as a 'top priority' according to the Spanish director-general of co-operation with Africa, Antonio Perez Hernandez. Spain is keen to expand this initiative in South Africa. Indeed, with the World Tourism Organisation based in Madrid, Spain is ideally placed to assist South Africa in developing its burgeoning tourist industry.

Spanish tourist flows to South Africa are relatively low but show a healthy increasing trend as illustrated in the table below:

Visitors to South Africa <sup>27</sup>					
Country	1995	1998	1999	2000*	Average annual growth 1995/2000
Spain	6,935	15,305	20,377	18,234*	27.3%
UK	252,437	332,478	343,934	358,072	9.1%
Germany	172,502	201,321	211,052	211,011	5.7%
US	108,688	174,177	173,533	181,632	13.7%
Netherlands	48,197	85,296	87,606	93,091	17.9%
France	55,907	76,380	87,887	92,750	13.5%
* Incomplete for year 2000, but expected to be between 22,000 to 24,000.					

<sup>27</sup> World Tourism Organisation Market Trends Africa—2001.

From the above it can be seen that the percentage growth of Spanish tourists to South Africa is encouraging (second only to the growth of tourists from Hong Kong), and has vast potential for expansion before matching the levels of its major EU counterparts. The relative success in Spanish tourism is borne out by the Spanish national carrier Iberia adding, in 2001, a fourth flight to Johannesburg. Iberia carries a large number of non-Spanish EU passengers to South Africa, including many from Portugal. The prospect of a fifth weekly flight has been postponed as a result of the recent, post-11 September 2001, uncertainty plaguing international travel. There are currently 16 tour operators in Madrid and Barcelona operating tours to South Africa.

Spain has also had a prominent part in bidding on the South African Navy (SAN) requirement for corvettes and submarines, the former with a design from Bazan, the latter a joint French-Spanish development known as the *Skorpene*. As noted, neither was selected as preferred suppliers when the decision was announced in September 1999. However, Spain was widely believed to have 'won' the first corvette tender in March 1995 with the most cost effective offer. This first tender was postponed.<sup>28</sup> There is, however, a likelihood of Spain bidding on future requirements for medium-lift transport aircraft.<sup>29</sup>

South Africa has a military attaché at the level of Colonel in Madrid. The withdrawal of the South African military attaché in Lisbon has elevated the importance of this position. In this regard, it is important also to emphasise Spain's unique relations with Latin America, and considerable experience with the North African countries of the Maghreb and the Arab countries of the Middle East. There exists considerable potential for bilateral and multilateral military co-operation with Spain. One key area of co-operation is that of intelligence

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<sup>28</sup> For details of this process, see Edmonds M & G Mills, *Uncharted Waters: A Review of South Africa's Naval Options*. Johannesburg: SAIIA/CDISS, 1995; Edmonds M & G Mills, *Beyond the Horizon: Defence, Diplomacy and South Africa's Maritime Opportunities*. Johannesburg: SAIIA and CDISS, 1998.

<sup>29</sup> The Spanish firm CASA offered South Africa eight C-235s and eight C-212s in 1998 for \$200 million, with a buy-back offer on the South African Air Force's existing four C-212s and single C-235. However, this offer was not taken up, but still may be as peacekeeping and force requirements dictate.

exchange particularly in the areas of narco-trade and illegal immigration. On a broader level, enhanced military and intelligence co-operation with Spain in North Africa has the potential to strengthen the rollout of the New Africa Initiative (NAI).

## Strategies for future engagement

### *Bilateral areas and linkages for collaboration*

Politically and diplomatically, the potential for mutual co-operation and advancement is considerable. Spain is a gateway to North Africa, Europe and Latin America. Whilst South Africa has healthy relations in all these regions, Spain is uniquely placed to bring to bear its expertise and extensive networks. Madrid is also positively disposed to assist in the strengthening of South African relations, especially in Latin America given its wide diplomatic coverage and extensive trade interests and investment stake. As the Spanish ambassador to the Iberoamerican desk has commented in the latter regard, 'It is very much in Spain's interest to see the region strengthened and we spend considerable time encouraging our EU partners to become more involved, so we would be very amenable to seeing greater South African involvement in the region'.<sup>30</sup> Similarly, Spain sees South Africa as the fulcrum of future political, diplomatic and commercial expansion in the Southern African region. Indeed, South Africa's position as the regional hegemon and the key driver of both the reform of the Southern African Development Community (SADC) and the New Africa Initiative, makes Pretoria the ideal partner for expanding and deepening its interests in the region.<sup>31</sup> South Africa's dominant position in the SADC region holds considerable potential for the implementation of the Spanish government's *Internationalisation Action Plan*, the launch of which is expected in November 2001. The extensive list of Spanish diplomatic representation in Latin America is provided below:

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<sup>30</sup> Interview with HE Carlos Gomez-Mugica Sanz, Spanish Ambassador to the Iberoamerican desk, Madrid, 2001.

<sup>31</sup> Interview with Señor Anibal Jimenez Abascabal, Deputy Director-General for Sub-Saharan Africa, Madrid, September 2001.

<b>Spanish embassies and other missions in Latin America</b>	
Argentina:	Embassy and Trade Office and Consulates-General in Bahía Blanca, Buenos Aires, Córdoba, Mendoza and Rosario
Bolivia:	Embassy and Trade Office
Brazil:	Embassy and Trade Office and Consulates-General in Porto Alegre, Rio de Janeiro, Salvador Bahía and Sao Paulo
Chile:	Embassy and Trade Office and Consulate-General in Santiago de Chile
Colombia:	Embassy and Trade Office and Consulate in Bogotá
Costa Rica:	Embassy and Trade Office
Cuba:	Embassy and Trade Office and Consulate-General in Havana
Ecuador:	Embassy and Trade Office
El Salvador:	Embassy and Trade Office
Guatemala:	Embassy and Trade Office
Honduras:	Embassy and Trade Office
Mexico:	Embassy and Trade Office and Consulates-General in Guadalajara and Mexico City

<b>Spanish embassies and other missions in Latin America (continued)</b>	
Nicaragua:	Embassy and Trade Office
Panamá:	Embassy and Trade Office
Paraguay:	Embassy and Trade Office
Peru:	Embassy and Trade Office and Consulate in Lima.
Dominican Republic:	Embassy and Trade Office and Consulate-General in Santo Domingo
Uruguay:	Embassy and Trade Office and Consulate-General in Montevideo
Venezuela:	Embassy and Trade Office and Consulate-General in Caracas

By comparison, South Africa's diplomatic presence in the region is relatively limited as is depicted below:

<b>South African embassies and other missions in Latin America</b>	
Argentina:	Embassy and Trade Office
Brazil:	Embassy and Sao Paulo Trade Office and Consulate-General
Chile:	Embassy
Cuba:	Embassy
Mexico:	Embassy and Trade Office
Peru:	Embassy
Venezuela:	Embassy

Spain enjoys a significant diplomatic presence in Africa. However, its presence in Southern Africa is comparatively limited.

<b>Spanish embassies and other missions in Africa</b>	
Angola:	Embassy and Trade Office
Algeria:	Embassy and Trade Office and Consulate-General in Oran
Cameroon:	Embassy and Trade Office in Lagos
Côte d'Ivoire:	Embassy and Trade Office
DRC:	Embassy and Trade Office in Luanda
Egypt:	Embassy and Trade Office and Consulate-General in Alexandria
Ethiopia:	Embassy and Trade Office in Cairo
Gabon:	Embassy and Trade Office in Lagos
Ghana:	Embassy and Trade Office in Lagos
Kenya:	Embassy
Libya:	Embassy and Trade Office
Morocco:	Embassy and Trade Office and Consulates-General in: Casablanca, Nador, Rabat, Tangier, Tetuan, Agadir and Larache
Mauritania:	Embassy and Trade Office in Dakar
Mozambique:	Embassy and Trade Office in Johannesburg
Namibia:	Embassy and Trade Office in Luanda

<b>Spanish embassies and other missions in Africa (continued)</b>	
Senegal:	Embassy and Trade Office
South Africa:	Embassy and Trade Office in Johannesburg and Consulate-General in Cape Town
Tanzania:	Embassy
Tunisia:	Embassy and Trade Office
Zimbabwe:	Embassy and Trade Office in Johannesburg

<b>South African embassies and other missions in Africa</b>	
Algeria:	Embassy
Angola:	Embassy and Trade Office
Botswana:	High Commission
Côte d'Ivoire:	Embassy and Trade Office
DRC:	Embassy
Egypt:	Embassy and Trade Office
Ethiopia:	Embassy and Trade Office
Gabon:	Embassy
Ghana:	High Commission and Trade Office
Kenya:	High Commission and Trade Office
Lesotho:	High Commission
Mauritius:	High Commission and Trade Office
Morocco:	Embassy
Mozambique:	High Commission and Trade Office
Namibia:	High Commission
Nigeria:	High Commission and Trade Office
Senegal:	Embassy
Swaziland:	High Commission
Tanzania:	High Commission and Trade Office
Tunisia:	Embassy
Uganda:	High Commission and Trade Office
Zambia:	High Commission
Zimbabwe:	High Commission and Trade Office

Two practical areas of assistance that could be provided to South Africa by Spain are diplomatic training and briefings on Latin American countries and issues, as well as assisting with language training. In 2000, through the Spanish Development Agency (AECI), Spain trained 25 South African officials in the field of protocol and it would be desirable for this training to extend to training for postings to Latin American countries. Currently there are two official Spanish language schools in Africa and a dedicated facility for the teaching of Spanish in South Africa could serve as a valuable step in enhancing relations, whilst simultaneously serving as a facility for language training for the diplomats of the whole SADC region.

### *Future areas for trade and investment interest*

There have been notable successes and the potential for future relations is high, but a number of key issues of both perception and reality require attention in order to strengthen trade and commercial relations between the two countries. As one senior businessman put it, 'South Africa is a difficult market for Spain to penetrate because there is a triple sell. Firstly you have to sell Spain as a country, secondly you have to sell our industry and thirdly, you have to show you're the best. We don't understand each other very well. With Africa, we think tribal; with Spain, you think Flamenco.'<sup>32</sup>

The Spanish business experience in South Africa has thus to date not been entirely satisfactory. In part this is due to the fact that both countries are competitive in the areas of capital goods manufacturing, agrofoods and power generation. Thus in areas of competition, the future relationship may be more fruitful if approached initially on the basis of joint ventures. Apart from 'legitimate' competition, from the Spanish perspective, some business disappointments have stemmed from experiences of South African inefficiency, inconsistency and what are perceived as questionable tendering practices. Some Spanish businessmen have expressed frustration at their experiences in South Africa and dissatisfaction at tenders being awarded on grounds other than economics, quality and cost effectiveness. Similarly, some have expressed concern at the loose and inconsistent local regulatory environment, as well as concerns of

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<sup>32</sup> Interview, Madrid, October 2001.

corruption, crime, and badly structured black empowerment deals.<sup>33</sup> Some are fearful that regulations will change thus hampering their ability to work efficiently and complete projects timeously and efficiently. This is particularly crucial for infrastructure projects and public works. The problem is more acute in concessioning, where one's financial investment by definition is a long term one. Security and certainty are crucial and South Africa appears not to be doing enough to ensure both. Nevertheless the optimism lies in the positive relations that are being developed between Spanish and South African companies. These factors should be of some concern to South Africa. In contrast to the South African experiences, a number of Spanish business-people have recorded their satisfaction with the relative ease of conducting business in Namibia. As one commented, 'They just make you feel welcome and that they want to do business'.<sup>34</sup>

However, when questions were asked of Spanish businesses already operating in South Africa, their relationship with South Africa was regarded as very positive. As noted, there is a general acceptance that South African engineering and professional skills are high and Spaniards find it easy to work with their South African counterparts.

According to the Spanish director-general for trade and tourism (in Mediterranean and African countries), Carlos Escribano, the key to Spanish investment into the region is a clear understanding of the investment climate. Spanish investors are looking for a stable political environment in which there is security of tenure, and security of investment, where laws are upheld regardless of changes in the regime, that the financial infrastructure operates efficiently and that there are acceptable levels of governance. It is noteworthy that Spain has developed considerable political and investment risk skills through their broad involvement in Latin America, ranging from the exemplary environment of Chile, to Brazil, Argentina and the more difficult investment climate of Colombia. Thus Spain has greater experience in the type of environment that is characteristic of the South African scenario. In addition, Spain's expertise in designing appropriate regulatory environments is a further key advantage.

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<sup>33</sup> Interviews conducted by the authors in Madrid, September 2001.

<sup>34</sup> *Ibid.*

Through Iberia, Spain also possesses the potential to serve as a hub for South Africans visiting and doing business in southern Europe and North Africa as well as Latin America.

Both Spain and South Africa are leading sporting nations; yet sporting contact between the two countries is limited. The South African Embassy in Spain has made some progress in improving sporting contact, principally through facilitating Spanish soccer coaching, but the potential for further co-operation in soccer, tennis coaching, cycling and golf, in particular, is vast. As noted, South Africa's proposed hosting of the 2010 soccer World Cup and possible bid for the 2012 Olympic Games would provide key opportunities for co-operation between the two countries. A caveat should be added, however, in that Madrid is planning its own bid to host the 2012 Olympics.

Cultural relations between the countries also hold much potential. Despite language differences (which serves as a further argument for the establishment of a Spanish language facility in South Africa), both countries enjoy a rich cultural history and diversity. South Africa has exhibited its cultural wares at a number of expos in Spain, and South African music has been enthusiastically received.<sup>35</sup> South Africa has been invited to the Bilbao Tourism Expo in May 2002. Finally, Spain has developed a vibrant and exciting film production sector and holds an annual Spanish Film Festival in South Africa. This area in particular holds considerable opportunities for co-operation. Whereas South Africa has become an internationally desirable location for film and advertising producers, Spain enjoys an enviable reputation for film quality.

## **Region-to-region: The European and SADC dimensions**

The potential for joint business co-operation between Spain and South Africa is vast and relatively untapped. This arguably can best be facilitated through the respective business federations. A number of such federations offer valuable points of contact for South African companies such as Capital Goods

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<sup>35</sup> Interview conducted with Principal Secretary Lungile Mkunyanana, South African Embassy, Madrid, September 2001.

Manufacturing Association (SERCOBE) and the aforementioned Federation of Food and Drink Industries. Spain's food and beverages industry today ranks fifth in terms of sales in Europe. Food and beverages companies produce 20% of total industrial output and represent the most important manufacturing industry in Spain, contributing 15% of total value added and employing 17% of the workforce. Since integration into the EU, the industry has tripled its investment in modernisation projects.

The FIAB has also been successful in promoting the export interests of its members to Latin America. The FIAB are interested in developing a market presence in South and Southern Africa, and also in sharing their experiences in doing business in Latin America. They are particularly strong in processed foods, baby foods, olives and olive oil. This may be of considerable benefit for South African food and beverage manufacturers.

Other important federations include the Federation of Infrastructure Companies (SEOPAN) and the Spanish Chamber of Commerce. By far the most important body, however, is the Confederation of Employers and Industries of Spain (CEOE).

CEOE operates as the largest Spanish employer federation body with some 1.7 million members, and focuses on medium-sized businesses. It provides networks for Spanish business through its links to some 184 counterpart business federations globally. Its sectoral membership is drawn from the areas of industry, commerce and agriculture, accounting for some 97% of all companies. Its major function is to lobby government both in Madrid and in Brussels. It has an office in Brussels with a staff of ten. The CEOE has composite federations in each of the 17 regions and 50 provinces of Spain. The extent of the CEOE's international activity is evident when considering that the Director of International Relations travels to Latin America at least six to seven times a year in order to promote Spanish business in this region alone.

The CEOE also arranges high-level presentations and private breakfasts between its members and foreign, trade, ministerial representatives and heads of state. Conversely, trade missions to Latin America and other regions enable business to network not only with regional companies, but also to develop personal relations with governmental leaders. South African companies, through closer business

association links, could put this wealth of experience to very good use. CEOE's international linkages and co-operation with the Spanish Institute of Foreign Trade and the departments of trade and foreign affairs are exemplary and could serve as a useful model for co-operation between the South African business sector and the departments of trade and industry and foreign affairs.

South African employer federations such as the South African Federated Chamber of Commerce (SAFCOC) could achieve much from close co-operation with their Spanish counterparts. They might serve as an invaluable point of contact for Spanish business wishing to trade and invest in South Africa and the Southern African region.

Regional spatial development initiatives in the SADC region also hold attractive potential for bilateral co-operation. Harbour, railway and road reconstruction, as well as electricity generation and distribution are areas where South Africa and Spain enjoy competitive advantages. Spanish expertise in concessioning as well as environmental management projects are also key areas that hold important potential for the two countries in joint regional projects. It will thus be important for the positive experience of Dragados in the Platinum Highway project to be marketed and leveraged. Furthermore, the New Africa Initiative is predicated on a partnership between developed OECD countries and those African states willing to take responsibility for establishing domestic conditions of good governance. Thus in meeting all the prerequisites for healthy co-operation, the South African-Spanish relationship could serve as a key pillar in the New Africa Initiative.

## **Triangulation: The Latin American connection**

Addressing the South African Parliament whilst on a state visit accompanied by 50 top businessmen and parliamentarians in 1999, King Juan Carlos asserted:<sup>36</sup>

Today South Africa is driving a thriving relationship with many Latin America countries and powerfully contributing to creating a new feeling of unity among the southern hemisphere. Spain would like to contribute to this undertaking ...

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<sup>36</sup> *The Star*, 16 February 1999.

by drawing support from the robust potential of its current economic relations with this region.

The opportunities for South African–Spanish co-operation in Latin America are considerable. The remarkable success of Spanish trade and investment relations in the region are underpinned by a number of historical, cultural and linguistic affiliations. Nevertheless, as a former colonial power, Spain has had to learn the art of business diplomacy in countering accusations of a second ‘commercial colonisation’ of Latin America. This has also meant that Spanish entrepreneurs have had to become less arrogant or culturally chauvinistic in their approach to doing business in Latin America. Moreover, Spanish entrepreneurs have re-entered the region as representatives of a fully-fledged member of the EU with all the attendant obligations in terms of corporate governance and socially responsible practices.

A number of other drivers have led to an expansion in Spanish investment in Latin America. The economic development and maturity of contemporary Spain has led its commerce and industry to actively seek new investment opportunities and markets. Secondly, Spain was and is, finding the hurdles of doing business in the EU far higher than those of doing business elsewhere in the world, particularly in Latin America. Thirdly, Latin American countries have been characterised by relative inefficiency and a lack of competitiveness. Thus Spanish companies can invest in the region, drive greater efficiencies, reduce overheads (and bloated staff numbers) and generate higher profits. Finally, the timing of Spanish investment in Latin America has also been driven by privatisation programmes within the region. A good example is the considerable investment in the banking industry and investment by the Spanish Telefonica Company. Indeed, key to the economic success of Spanish investment in Latin America is the operational strength of Spanish banks. This has been driven by financial opportunity and the need to service the growing number of clients of Spanish banks now doing business in the region.<sup>37</sup>

Some \$40 billion of Spanish investment was made in Latin America during the 1990s. In addition, more recently, Banco Santander Central Hispano (BSCH) won

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<sup>37</sup> Interview with Senor Javier Rodriguez San Martin, Head of International Finance Banesto, Madrid, September 2001.

the \$3.6 billion bid for control of Brazil's state-owned Banespana, the third largest bank in the region's largest economy. BSCH now owns 17 banks in 12 countries in the region with approximately 23 million customers. Telefonica (Spain's largest company by market capitalisation) is also set to launch its mobile Internet portal in Brazil with an estimated consumer potential of some 58 million users by 2004. Portugal's Telecom and Spain's Telefonica have also entered into a \$10 billion investment joint venture in Brazil. In the utilities sector, electric companies Endesa and Iberdrola have interests in Argentina, Chile, Colombia, Peru, Bolivia and other countries. Endesa owns a mobile phone company in Chile and Iberdrola has interests in telecommunications, water treatment and gas trading in the region. In addition, major construction companies such as Dragados, Acciona, FCC and OHL are active with projects ranging from hotel construction, freeway construction, ports and dams. Overall forecasts for medium-term investment in the region are lower however, projected at some \$15 billion between 2000 and 2004.<sup>38</sup>

Spanish companies are fully cognisant of the currency and political risks in Latin America, but accept this as an element of their risk/return analysis prior to investing. Two areas of major concern, however, are crime and corruption. Crime has made the normal conduct of business in certain areas, such as Colombia, difficult.

Spain is today the second largest foreign direct investor in Latin America after the US, with a total stake of over \$200 billion.

The major areas of investment into Latin America have been:

- Banking (Spanish banks have reportedly either bought outright or acquired control of the top five banks in every Latin American country where they have invested).<sup>39</sup>
- Public works programmes.
- Oil and petrochemicals.

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<sup>38</sup> See Jones B, 'European firms investing in Latin America', *Investing in Latin America*. <http://www.eurunion.org/magazine/>

<sup>39</sup> *Business Day*, 27 May 2001.

- Fishing.
- Capital goods.
- Spare parts.
- Tourism.
- Agro-food.
- Telecommunications.
- Energy generation and distribution.
- Air traffic control systems.

From the perspective of Latin America, Latin American countries enjoy the benefits of working with Spanish companies, which have EU connections and the advantages of dealing with the Euro single currency.

Politically, Spain is playing an increasingly influential role in the region. One of the most significant developments in this regard is the formation of the annual Iberoamerican summits comprising 20 countries of Latin America as well as Portugal and Spain. This forum is regarded as the Spanish equivalent of the (British) Commonwealth, and serves an invaluable role in binding Spanish-speaking nations together as well as providing a high level platform to discuss matters of regional and global concern. The agenda for these summits deals with matters such as globalisation, international crime, children's rights and child labour. It also plays an important role in flagging nations whose democracies may be under threat and providing a focal point for assistance. Whilst the summits do not permit state observers, South Africa could gain significant insights into the summits and indeed the key issues of the region through closer diplomatic co-operation with Spain.

## **Conclusions: From 'pollution' to partnership?**

Spain will present its strategic plan for international investment, trade and relations in November 2001. Although South Africa ranks as only its fifth largest trading partner in Africa after Morocco, Algeria, Tunisia and Egypt, South and Southern Africa reportedly feature prominently in this plan, particularly as far as the sub-Saharan region is concerned. South Africa is arguably the key to a

successful Spanish foreign, commercial and trade policy in the southern cone of Africa.

Conversely, Spain has much to offer South Africa in terms of trade, commerce, infrastructure development as well as designing and formulating appropriate regulatory environments for infrastructural and environmental management programmes. In addition, it has considerable expertise in information technology, food processing and manufacturing. Put simply, closer business, political and military co-operation between the two countries holds enormous potential.

Finally, Spain remains arguably the best model as an entrant to the EU and in terms of the success story following its membership. As Howard Wiarda has put it:<sup>40</sup>

Arguably no other country in the world has changed as much in 25 years as Spain. It is one of the great success stories of modernisation; those who knew the country before 1970 would find it unrecognisable today. Spain has been transformed from top to bottom in all particulars; its political system has been democratised; its political culture has been transformed; and its social system has been modernised. Economically, Spain has moved from being one of the poorest countries in Europe to a position where its per capita income is now approximately 80% of the EU average. Its eager almost unquestioned adherence to the Maastricht requirements has demonstrated that it wants to be included in the EU not just on economic grounds but for important nation political and psychological reasons as well.

It was once said that 'Europe stops and Africa begins at the Pyrenees'. Today both countries have the opportunity to forge deep and sustainable linkages with considerable mutual benefit. South Africa and Spain share the ambition of modern, progressive and advancing countries, each with bases and clear interests in the developing South and developed North. Together they could span the divide of development, and in so doing add value to constituencies beyond their own.

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<sup>40</sup> Wiarda HJ, 'Spain 2000: A Normal Country?', *Mediterranean Quarterly*, 11, 3, Summer 2000, p.30.

## Appendix: List of contacts

### South African Embassy in Spain

Address : Claudio Coella, 91-6, Madrid  
Tel : +91 436-3780  
Fax : +91 577-7414  
E-mail : [embassy@sudafrica.com](mailto:embassy@sudafrica.com)

### Spanish Embassy in South Africa

Address : 169 Pine Street, Pretoria  
Tel : (012) 344-3875/6/7  
Fax : (012) 343-4891  
E-mail : [embespza@mail.mae.es](mailto:embespza@mail.mae.es)

### Spanish Trade Office in Johannesburg

Address : 8<sup>th</sup> Floor, Norwich Life Tower, Friedman Drive, Sandton, 2146  
Tel : (011) 883-2102  
Fax : (011) 883-2624  
E-mail : [buzon.oficial@johannesburgo.mcx.es](mailto:buzon.oficial@johannesburgo.mcx.es)

## Useful Websites

South African Embassy in Spain: [www.sudafrica.com](http://www.sudafrica.com)

Spanish Secretariat of State for Trade and Tourism: [www.mcx.es](http://www.mcx.es)

Spanish Institute for Foreign Trade: [www.icex.es](http://www.icex.es)

Spanish General Directorate of Trade and Investments: [www.mxc.es](http://www.mxc.es)

Confederation of Employers and Industries of Spain (CEOE): [www.ceoe.es](http://www.ceoe.es)

Spanish Small Business Confederation: [www.cepyme.es](http://www.cepyme.es)

Spanish Agency for International Co-operation: [www.aeci.es](http://www.aeci.es)

Spanish Association of Manufacturers of Equipment and  
Parts for the Automobile Industry (SERNAUTO): [www.sernauto.es](http://www.sernauto.es)

Spanish Capital Goods Industry (SERCOBE): [www.sercobe.es](http://www.sercobe.es)

Association of Spanish Contractors (SEOPAN): [www.seopan.es](http://www.seopan.es)

## About the authors

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*CONFEDERACIÓN ESPAÑOLA DE ORGANIZACIONES EMPRESARIALES* (The Confederation of Employers and Industries of Spain—CEOE), founded in 1977, is the top Spanish business organisation, with a voluntary membership of one million public and private companies, representing all productivity sectors of the country (agriculture, industry and services). The CEOE accounts for 184 regional and sector-based organisations. The CEOE can be found at: <http://www.sispain.org/english/economy/ceoe.html>