

An Analysis on the Key Strategies of Foreign Direct Investment Outflows from Spain to Australia

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Declaration

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Abstract

The establishing of the European Union (EU) has led to the creation of a stable economic market and a sense of political security in Europe that has made the EU popular among many business analysts. The ongoing development of the EU has brought many changes to the European economy and has also made it increasingly attractive for EU-based companies to pursue cross-border investment. The introduction of the Euro in 2002 as common currency, and a single monetary policy regime under the direction of the European Central Bank as well as the elimination of cross-border tariffs are just some examples of the benefits that companies in European member countries obtained with the formation of the EU. Nevertheless, the Euro area is currently evidencing the weaknesses and disadvantages of having to combine many different fiscal policies and business cycles under one monetary regime. The economic and financial crisis affecting the European Continent is challenging governments, countries and some multinational corporations. Multinationals mainly focused on Europe and its domestic markets are facing economic challenges that are reminiscent of those which obtained during the reconstruction period after the Second World War, suggesting a greater need to focus expansion and investment in markets outside Europe.

Spanish investment allocations have recently mirrored an EU tendency for capital flight. For the last 35 years, Spanish Foreign Direct Investment (FDI) seems mostly to have followed a predetermined allocation shape, albeit with altered concentrations and amounts of capital allocated – most Spanish corporations have only considered allocating funds to Central and South America or the rest of Europe in recent years. Yet allocating capital to Latin America involves many risk factors that need to be taken into account. Hence, many Spanish organizations have looked more recently for more secure opportunities for internationalization and therefore have tried to access European markets, where success stories seemed almost to be taken for granted. Taking the range of countries in the EU and their different stages of business cycles into account, investors assumed that there would always be some nations enjoying periods of economic growth and expansion. The reality has proven otherwise, however. Forming part of the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain) group of countries, Spain currently has one of the highest unemployment rates in the developed world, and suffers particularly high borrowing costs. It is not, therefore, currently likely to return to prosperity in the short-to-medium term. Due to the poor economic conditions which currently prevail in their home country, some Spanish

corporations are presently aiming to achieve greater risk diversification in their operations though a resort to FDI activity other than in the EU or in the traditional destination of largely Spanish-speaking Latin America.

Differing national economic prospects would seem to make Australia an appealing diversification opportunity for Spanish corporations. Fewer trading links, the physical distance and the rich natural resources of the country make Australia's economy less influenced by movements in European markets. The impact and predominant determinants of the value of the Australian dollar (AUD) are significantly different to the ones which inform the value of the Euro (EUR), as the value of the Australian dollar has a high correlation to the market prices of locally produced commodities (natural gas, base minerals etc.), which are significantly affected by the demand of the developing economies of East Asia (Bloomberg 2011). There are factors discouraging Spanish investment in Australia as well, however. Physical and "psychical" distances (Beckerman 1956 & Linnemann 1966) are important factors that might discourage Spanish investment in Australia. Nonetheless, there have been a few Spanish corporations that have decided to allocate capital in the Antipodes. Analysing these investments is the main purpose of the work at hand.

This thesis presents the first substantial analysis of Spanish FDI in Australia. The analysis is based on the Spanish investments in Australia which have occurred over the last 18 years and is mainly focused on seeking to ascertain the reasons why Spanish corporations have allocated capital to the Antipodes. Observing key variables (such as the value of investments and the allocation sector or type of FDI) together with a qualitative analysis of media releases allows a more concise and detailed understanding of the motivation for Spanish FDI. The investigation which follows will above all seek to discern whether FDI in Australia has been actually used in order to diversify risk or rather has developed only in an opportunistic and unstructured manner.

1. Introduction

1.1. Keywords

Foreign Direct Investment, Spain, Australia.

1.2. Research question

The following research provides an overview of the patterns of investment flows and key investment strategies employed by Spanish corporations in Australia. It analyses these flows and strategies in order to determine whether any patterns can be discerned in Spanish FDI in Australia or whether such capital inflows instead are characterised by ad hocery and opportunism.

1.3. Methodology

The paper at hand employs a descriptive analysis of the shape of the most recent Spanish FDI outflows to Australia. The first stage of the analysis of the primary data focuses on average investment by sector in order to develop an overall view of Spanish FDI in Australia. Nevertheless, as elaborated in the literature review, investments from Spain seem to be highly and mostly motivated by the taking of opportunities, rather than representing part of consistent diversification strategies. A few large investments have been made in the surveyed period, however, and the values of these inflows significantly affect the averages. If not allowed for properly, these could lead to biased conclusions. For this reason, in some cases the data have been adjusted and graphed in different forms in order to obtain more conclusive information about investment flows and sector allocation¹.

In the sector-by-sector analysis which follows, the largest investments have been tracked and analysed in order to ascertain and assess the most significant motivations for investing in Australia. Subsequently, a few companies with statistically representative values in each division of the remaining investments have been selected in order to identify other, recurrent reasons and motivations for FDI. Due to the necessary limitations in space of the paper at hand, however, not all investments covered by the data set have been analysed in such detail.

¹ Large single investment allocations were removed to obtain a better understanding of remaining investments.

1.4. Data Compilation

To compile the necessary data for this study, it was necessary to study and access the Spanish database Datainvex. This database provides FDI information collected by the Spanish Government's *Registro de Inversiones Exteriores* (Register of Foreign Investments or RIE). The information in the database includes (among other data) the stock and gross/net inflows and outflows of Spanish investment, net sales (the latter only from 2007, however) and the number of employees being engaged in each investment project. The RIE database allows multiple descriptions and categorizations to enable details of performing or allocating sectors based on the Spanish *Clasificación Nacional de Actividades Económicas* (National Classification of Economic Activities or CNAE). Sorting options include: year made, autonomous community (or state) or the *Entidad de Tenencia de Valores Extranjeros* (ETVE, or holding company) or non-ETVE legal/taxation form of the funding. The Spanish Ministry of Industry, Tourism and Commerce has performed a revision on all investments operations, based on new legislation approved over the course of the 1990s, providing relevant and accurate data going back until 1993. This year (1993) marks the first year of FDI analysis of this study. The state of origin, gross FDI, net FDI, sector performing the investments, the sector of allocation and type of company (ETVE or non-ETVE) were all pivotal to obtaining a clear overview of the pattern of outward capital flows. The number of employees and the net sales of the investing companies were not available for the whole time period under analysis, as the relevant data history reaches back only as far as 2007. Therefore, these data sections are not considered due to the difficulty in drawing feasible conclusions from them.

The definition of Foreign Direct Investment used corresponds to the one established by the IMF (1993), where investments are performed with the intention of gaining control or to influence the decision making of a foreign corporation (Comercio 2008). Generally, any acquisition over 10% of the shares of a business is considered a FDI. In the case of the database used, values were extracted from the RIE. In theory, all investments undertaken by Spanish corporations abroad have to be notified within the following month to be registered on the RIE. Therefore, the database includes new participations in foreign enterprises, but does not include reinvestment of capital or borrowing operations between national and foreign enterprises. The list of current (as of September 2010) companies investing in Australia (ICEX 2010) was also used to narrow down conclusions on the investments undertaken by Spanish corporations.

2. Literature Review

The intention of this paper is to analyse and explain the nature of the Spanish-initiated capital flows between Spain and Australia. There is no literature regarding Spanish FDI in Australia presently, however, so the following section will give an overview of the existing research concerning all Spanish FDI outflows. The FDI relationship between Australia and other countries has received scholarly attention in the past, though. Choudhury (2011), for example, describes the FDI relationship between India and Australia, and Waitt (1994) analysed the FDI interactions between Australia and South Korea. Taylor & Thrift (1981) analyse the connection with the UK and Huang & Austin (2011) investigates Australia's FDI relationship with China, focusing especially on the mining industry. Some additional research concerning FDI in Australia can be found in recent academic articles and will be referred to throughout the thesis. Faeth (2005) provides a general overview of FDI in Australia, as well as analysing interaction with particular countries, including Japan and Germany. Bugeja (2010) investigates the types of Australian companies that have proven more attractive to foreign takeovers, while Iyer, Rambaldi & TanBg (2009) analyse the impact of FDI and international trade on the GDP of Australia.

The lack of any previous research on Spanish FDI in Australia has necessitated drawing on a broad range of published sources in order to provide a considered view of the development and current state of the subject. The amount of research on Spanish FDI in general is quite significant, but the scope of the present paper allows direct reference only to be made to a selection of the most important articles, rather than an exhaustive treatment of academic research on Spanish FDI. An overview of the literature taken as a whole, however, indicates that the main areas of focus in analyses of Spanish FDI have been the nature of the factors which influence FDI outflows as well as the main impact of FDI on the local receiving economies and the relationship of Spanish FDI allocations to export markets.

2.1. Growth and development of Spanish FDI

Recent events in Spanish history have clearly influenced the development of national FDI. The dictator Francisco Franco ruled Spain from the end of the Spanish Civil War in 1939 until his death in 1975. Three years later, though, the current Spanish Constitution was enacted, marking the beginning of democracy. The dictatorship era was characterized by

autarky², analysed by Tames-Gómez (2005) as entailing noticeable damage to the development of the Spanish economy and commercial interaction globally. This is one of the key reasons why authors such as Guillén-Rodríguez (2004), Costa-Climent (2002) and Fernández-Otheo (2004a) only analyse the history of Spanish FDI during the last twenty or thirty years.

The “Plan de Estabilización” (Stabilization Plan) enacted at the end of 1959 is the actual initial stage of modern FDI in Spain, however. By that date, Franco had realized that autarky had to be abandoned and hence created the *Oficina de Coordinación y Programación Económica* (Coordination and Economic Planning Office), an agency formed to encourage Spanish international development. Durán-Herrera (2006) characterises the 1959 Stabilization Plan as representing the beginning of an internationalization process comparable to the early stages assumed under the Investment Development Path model of Dunning & Narula (1998) which is more commonly characterised as an emerging stage in a national economy. Durán-Herrera (2006) extends the duration of the emerging economic period in Spain up until the end of the 1980s.

In 1973 the first Spanish FDI legislation was passed as a development of the Stabilization Plan, allowing the first FDI inflows from the United States and Europe to come to Spain (Durán-Herrera 2003). Further development occurred immediately after the death of Franco, eliminating the need for ex ante consent (government permission was needed before any kind of foreign investment could be performed), to match the gradual opening of the economies of the rest of Western Europe which was occurring at the time. As Durán-Herrera (2003) explains, the Spanish initiatives were necessary but, because of political instability at the time and the following “lost decade” of investments in Latin America during the 1980s, Spain could not internationalise its economy further. Velasco-Rami (2009) analyses the international development of the Spanish economy, providing evidence that Spain followed an internationalization strategy similar to those which had occurred in other countries previously. At first, Spanish companies mainly sought out export markets, with FDI outflow only coming later. The Spanish government also depreciated the currency several times, a matter which encouraged FDI outflows to Latin America during the 1980s. As Durán-Herrera (2004) notes, however, the investments were not successful because of the poor economic

² Further information regarding Spanish autarky period can be found on the study by Richards (1999).

conditions which plagued Latin America at the time. The 1980s consequently ended up becoming known as a “lost decade” for Spanish FDI. From an eclectic paradigm point of view (Dunning 1980), Latin America did not have the location advantages (having both weak political and economic environments) that would have given Spain ownership advantages (Durán-Herrera 2004 & Dunning 1980).

The accession of Spain to the European Economic Community in 1986 marks the beginning of a second stage in the development of Spanish FDI that lasted until the end of the 1990s (Durán-Herrera 2006). This stage saw further developments in both the Spanish economy and associated capital movements. Becoming a member of the European Economic Community (the forerunner to the European Union) meant more competition from other European firms, but also proved a source of increased business opportunity (Guillén-Rodríguez 2004). Spanish companies were forced to develop internationalization strategies (including FDI) to remain competitive with rival firms from other European countries. Nonetheless, Spanish companies also internationalized due to the ownership advantages predicted under Dunning’s (1980) eclectic theory. Spanish companies developed intangible internal assets (such as the knowledge or expertise obtained in the energy or telecommunications sector) that gave them competitive advantages they could employ abroad. Looking further into the internationalisation of Spanish companies, Quintana-Navio (2007), Buisán-García & Espinosa-Malo (2007) argue that FDI became no longer seen as an adventurous process, but one that was often pursued for cost reduction purposes at the future. International expansion became a necessity if Spanish companies were to remain competitive. In terms of the IDP model (Dunning & Narula 1998), Álvarez (2001), finds that Spain is now situated at the end of the third stage of its economic internationalization and on the cusp of the fourth IDP stage: i.e. becoming a well-developed economy. His studies find the slow development of the Spanish economy through each phase remarkable, taking into account the GDP of the country and the considerable development of the internal Spanish economy at the time.

The most recent stage of economic internationalisation under IDP theory is the consolidation of growth in the Spanish economy and a phase where the Spanish balance of payments finally started showing a surplus (Durán-Herrera 2006). A surplus was sustained almost every year from 2000 until 2011, Spain becoming in the first decade of the 2000s, one of the top ten countries globally in terms of FDI outflows. The creation of the Euro in 2002 is mentioned by Durán-Herrera (2006) as another key factor that influenced the movement of Spanish capital.

A common European currency provided Spanish companies with a sense of security that encouraged even more FDI outflow towards the rest of Europe (Durán-Herrera 2006). Durán-Herrera (2006) confirms the development of the economy of Spain to the latest stage of Dunning's IDP model and Fernández-Otheo (2004b) recounts the many changes in legislation required, as Spain had to adjust to EU and global trade agreements, identifying the impact on economic indicators produced at this stage.

The well-developed economic stage claimed for Spain by Duran Herrera is supported by Fernandez-Otheo (2004), Guillén-Rodríguez & García-Canal (2010) and Requeijo-Gonzalez (2003). These authors identify the already-mentioned key events in the history of Spanish economic internationalization as due to the improving global economic environment of the time, increasing competition, Spanish accession to the EU and European currency union. Moreover, the privatization of Spanish state-owned companies and corporate tax reforms are two factors that most likely also significantly influenced the pattern of FDI outflows (Fernandez-Otheo 2004, Requeijo-Gonzalez 2003). The creation of ETVEs³ (see section 2.5) was for the sole purpose of providing taxation advantages to Spain-domiciled firms. This taxation policy was meant to encourage FDI outflow and nowadays is used by many multinationals, Spanish and foreign, to perform FDI (Fernandez-Otheo 2004). Privatization of state-owned enterprises forced companies to internationalize, mostly through FDI. In the past Government support had allowed public corporations to perform less efficiently, but the privatization of state-owned corporations forced the creation of economies of scale and pursue of new markets. The ending of the policy of autarky, productive relocation (vertical integration and outsourcing) together with financial internationalization were the main developments that allowed the creation of multinationals in Spain. Efficiency and competitiveness were ultimately the main factors which encouraged internationalization (Requeijo-González 2003). Guillén & García-Canal (2010) contributes further to the theory and academic literature on the internationalisation of Spanish commerce with his recent book which investigates all forms of Spanish internationalization (but particularly FDI), developing further on each of the key factors previously discussed.

³ Entidades de Tenencia de Valores Extranjeros (Foreign Stocks Holding Enterprise).

2.2. Preferred FDI Allocation

To provide a better understanding of the pattern of Spanish FDI, the growth in capital flows has been isolated from country allocation. However, the close relationship between these two sections needs to be understood. The allocation of Spanish FDI has been extensively studied in the academic literature in order to explain how Spanish multinationals have developed in Europe but also especially in Latin America. The latter relationship has been especially closely analysed by researchers in Latin America due to the high influence of Spanish investment in the area. Spain currently holds the second position in FDI volume in Latin America behind only the United States of America (Ministerio de Industria, Turismo y Comercio 2011).

The first FDI interactions mainly took place with France, due to the close location, migration after the Civil War (1936-1939) and the Stabilization Plan of 1959 (Castro-Balaguer 2009). The FDI in France was mainly undertaken by small and medium enterprises (SME) located in the north of Spain. The allocations in these early stages were relatively low, mainly focused on obtaining raw materials and since the 1970s on manufacturing. These developments were mainly supported by the COPEF (Conférence Permanente de Chambres de Commerce, d'Industrie et de Navigation du Sud Ouest de la France et du Nord et de l'Est de l'Espagne) and DATAR (Délégation à l'Aménagement du Territoire et à l'Action Régionale) with the intention of developing the poorest areas of France. Previous conditions were not ideal as the two economies were not complementary and had high development disparity. Castro-Balaguer investigates the important role played by support agencies in developing Spanish FDI at the time and Guillén-Rodríguez (2004) similarly assesses FDI outflows from Spain to France during the 1970s. The government's restrictive policy regarding international business relationships and maintenance of exchange rate controls are the key issues that restricted the further development of Spanish FDI at the time.

The opening of many national economies to international trade at the beginning of the 1980s led the Spanish government to encourage state-owned enterprises to undertake FDI at the time (Durán-Herrera 2003 Guillén-Rodríguez 2004). The economic situation in Latin America was not ideal in the 1980s, but the feeling of lower cultural difference (López-Duarte & García-Canal 1998) led to a flow of investments and the emergence of the so called "lost decade" of Spanish FDI in Latin America.

In 1986, the accession of Spain to the European Economic Community encouraged most of the Spanish FDI outflows of the time going to Europe. Europe accounted for more than 50% of the investment flows, mainly performed by large Spanish family corporations (Durán-Herrera 2006, Guillén-Rodríguez 2004, Buisán-García & Espinosa-Malo 2007, Campa & Guillén-Rodríguez 1996a). By the early 1990s, Spanish companies had invested in foreign organizations primarily in the United States, Canada, North Africa, Europe and Latin America (Durán-Herrera 2002, Arahetes-García & García-Domonte 2007), expanding mainly to Latin America over the next decade.

The inauguration of the EU with the Maastricht treaty of 1993 marked the beginning of a new era in Spanish FDI (Arahetes-García & García-Domonte 2007). Spanish FDI rapidly expanded from that date, with increasingly higher intensity especially in the period 1996-2001. Latin America accounted for more than 60% of Spanish FDI outflow at the time, mainly because of the favourable global economic environment, the location advantages of the area and the competitive advantages enjoyed by Spanish companies relative to those in Central and South America. These advantages can mainly be ascribed to cultural similarity. Sharing language and an interconnected history (much of Latin America being part of the former Spanish Empire) facilitated the FDI process for Spanish companies operating in the region (Torral-Cueros 2004). Brazil, Argentina, Chile, México, Colombia, Peru and Venezuela accounted for more than 95% of the investments undertaken primarily by a large group of Spanish, most of them recently privatized, corporations (Arahetes-García & García-Domonte 2007, Durán-Herrera 2006, Santiso-Guimaras 2007). The knowledgeable organizations took the opportunity of applying almost the exact same business models from Spain in the developing industries in the Southern hemisphere. For a full list of Spanish corporations active in Latin America see Arahetes-García & García-Domonte (2006, pp. 49-53).

The impact of the stagnation of the US economy, declining stock markets and low expectations for the European economy have informed a new development of Spanish FDI recently, with a clear impact on regional allocation (Arahetes-García & García-Domonte 2007). The previous experience of FDI in Latin America provided Spanish corporations with experience in international expansion (Santiso-Guimaras 2007). This knowledge affected the method of FDI as will be explained further below. The result was that Spanish companies began to change the primary destination of their FDI to Europe (Galán-Zazo & González-

Benito 2001), as more of a sense of stability was evident there (Bosque-Maurel 2006). At this stage more than 65% of Spanish investments were allocated to Europe, the United States and Canada currently only accounted for over 6%, Latin America around 16%, recently joined countries to the EU around 5% and 7% for the rest of the world (Arahetes-García & García-Domonte 2007, García-Teruel 2003, Costa-Climent 2002, López-López & Mella-Márquez 2010, Santiso-Guimaras 2007, Buisán-García & Aceña-Moreno 2007).

Chislett (2007) details an analysis of the most important Spanish corporations that have undertaken FDI during the expansion period. He argues that the high concentration of FDI in Latin America made the Spanish economy vulnerable to a possible crisis in Central and South America (i.e. the seven top undertakers of FDI in Latin America represented 70% of the IBEX 35 index on the Spanish stock market). Chislett (2007) concludes that Spanish corporations should diversify further (cf., Fernández-Otheo 2004). Chislett (2010) expands on his previous findings, concluding that Spanish companies were aware of the necessity for diversification. Spanish corporations were increasingly following a divergence strategy not only to reduce concentration in Latin America, but also in Spain itself. These enterprises were aware of the advantageous situation of Spain and the need to diversify risk in case of a future recession or crisis – e.g. Banco Santander (Santander's Bank) now obtains more than two thirds of their profits from locations abroad (Chislett 2010).

Afi (2011) elaborates on the current situation. The Netherlands obtained more than 30% of Spanish FDI in 2010, but it is commonly used as a transit country to expand to different nations; the United Kingdom received 25%; the United States and Mexico obtained almost 10% of investments each; and China was the destination of 5% of Spanish FDI outflows in 2010 (Afi 2011). The recent crisis in Europe has modified the flows of Spanish FDI, decreasing the importance of Latin America. Investing corporations' risk-management policies and the development already acquired by Spanish multinationals. Asia is increasingly becoming a focus for Spanish FDI, too, and a high growth of FDI flows towards this region is expected now due to the ongoing difficulty of the economic situation in the developed world. The current value of Spanish FDI outflows accounts for almost half of the GDP of the Spanish economy (Guillén-Rodríguez & García-Canal 2010, OEME 2010).

As mentioned previously, however, there has not been any relevant academic research to date on the topic of FDI relations between Spain and Australia. Lack of significant investments flows might be one of the factors for this gap in research, but Spanish FDI outflows are

clearly influenced by previous investment activity, creating FDI paths that have a tendency to be followed. The path-dependent nature of Spanish FDI has been investigated in the past (Martínez-Martín 2009), however, will be discussed in a further chapter.

2.3. Factors influencing Spanish FDI outflows

This chapter details and investigates the most important and influential characteristics and factors that shape FDI outflows. Most research in the area is influenced by the eclectic theory of Dunning (1980, 2000) and his Ownership, Location and Internationalization (OLI) categorisation. The Uppsala internationalization process model is also significant as another popular explanation of a companies' foreign market selection and mode of resource transfer (Pla-Barber 2001). It needs to be acknowledged that this discussion concentrates only on Spanish corporations, finding at some stages results that contradict or are not compatible with the OLI paradigm. Furthermore, some factors which influence the type of FDI performed (e.g. acquisitions or newly created subsidiaries) will be further examined in another chapter in detail. The relationship of exports to FDI will also be discussed subsequently. Finally, the events mentioned in the discussion of Spanish economic development above should not be forgotten as they are probably the most influential factors in Spanish shape and allocations of FDI.

Galán-Zazo, González-Benito & Zuñiga-Vivente (2007) research the issue of the extent to which factors can ultimately determinate the decision to allocate investments via FDI in different host countries. The level of economic development of each group of host countries, rather than specific factors linked to each individual host country is the main influence in capital allocation (Galán-Zazo, González-Benito & Zuñiga-Vivente 2007). Taking into account the limitations of their study, as only Spanish FDI outflows with Europe and Latin America were studied, the conclusions reached point to matter of the focus of managers when developing FDI. A classification of countries into different stages was made taking into account IDP theory. When performing an investment on a later IDP-stage country, the research finds that technological and infrastructure factors take most of the attention of managers during the process. On the other hand, when investing in countries of an earlier, less-developed IDP stage, cultural and social factors are more important. Market factors do not seem relevant in either type of country. These results should be treated with some caution, however, as the relationship with countries in earlier stages of IDP might not be

representative, as Galán-Zazo, González-Benito & Zuñga-Vivente (2007) themselves point out.

Durán-Herrera (2004) explains and develops further on the ownership advantages of Spanish enterprises. His conclusions are focused on the intangible assets of companies, finding that the higher the technological sophistication, capital management and commercial character of the enterprise, the higher the propensity to undertake FDI.

The previous results support and develop further on the study by Pla-Barber (2001). Pla-Barber developed and tested the compatibility of Spanish companies with Dunning's eclectic theory and the Uppsala internationalization model. Pla-Barber (2001) studied the performance and internationalization approach of a sample of Spanish companies. His conclusions support the ownership advantages view, as Pla-Barber finds a significant correlation between high intangible assets and the creation of wholly owned subsidiaries. Companies invest and transfer knowledge to new strategic subsidiaries, but keep knowledge in-house, rather than sharing it through alliances or joint ventures (JVs). Moreover, Pla-Barber's test of Uppsala theory finds Spanish companies follow the path of exports, sales subsidiaries and at the end production subsidiaries, first performing subsidiaries in countries with less perceived risk.

The cultural distance paradigm is studied by López-Duarte & Vidal-Suárez (2011). This variable is merged with the country risk, creating a new variable to explain the best FDI approach. The new variable of external uncertainty significantly explains the approach method, JV or acquisition, when approaching either a high-risk or low-risk country, respectively.

Durán-Herrera (2002) integrates previous literature to create a model of the most common allocations of FDI from Spain. His paper provides an incorporated view of investment motivations, FDI-achieved characteristic ownership advantage and integration levels. FDI in Australia is not investigated by Durán-Herrera (2002), but as an example, the case with European countries is the following: a main motivation has been the market, the FDI form is commercial subsidiaries, and the main competitive advantage is internal management and integration obtained has been vertical and horizontal.

Spanish FDI outflows have a causal linkage over time, creating development paths and FDI model routes that are constantly repeated. Martínez-Martín (2009) studies this matter

performing an analysis on the long-run destination of FDI undertaken by Spanish companies. The motivation to undertake FDI include not only traditional vertical or horizontal integration, but also the motivation when a multinational allocates FDI to a host country in order to serve as a production platform for exports to a group of (neighbouring) host countries (Martínez-Martín 2009). Martínez-Martin calls for the necessity of performing a spatial panel data model in order to provide “consistent and efficient estimations in order to capture third country effects which would otherwise lead to misspecification errors” (Martínez-Martín 2009, p. 8). His results prove the spatial linkages remained almost constant, proving that for Spanish FDI outflows, previously used routes matter. The study also leaves room for the chance of creation of new channels. Nonetheless, as Martínez-Martin explains, it would be interesting to introduce more variables to his research, such as corporate taxation and foreign direct capital restrictions. This result also compliments the one provided by Velasco-Rami (2009).

Experience of international ventures is a relevant influencing factor when companies undertake FDI (Guillén-Rodríguez & García-Canal 2007). Performing FDI or having an export relationship gives companies knowledge that influences future FDI outflows (Durán-Herrera 2006). When experience is low or inexistent, the preferred mode of FDI is JV where Spanish companies are concerned. When companies had already acquired international knowledge, however, the preferred mode of expansion is through direct acquisition or the creation of subsidiaries which are integrated into the company structure (López-Duarte & Vidal-Suárez 2011). The integration of foreign subsidiaries is a complex issue that companies only know to perform efficiently when there is previous experience dealing with foreign cultures (López-Duarte & García-Canal 1998).

Galán-Zazo & González-Benito (2001) performed an analysis of the factors which explain Spanish FDI outflows after 1998 in terms of the revised eclectic theory frame of Dunning (1988). Their article focuses on the micro-economic contributions to FDI. Galán-Zazo & González-Benito (2001) studied a sample of Spanish multinationals, coming to the conclusion that FDI process consist of three phases with three different factors: when to invest, how to invest and where to allocate FDI. For the Firm Specific Advantages (FSA) or Ownership advantages, the most influential factors are the experience of the national market, technological capacity and innovation of the company, the internationalising approach of the managers and synergy willingness. Among Country Specific Advantages (CSA) the most

influential factors are the importance of present and future market conditions, communication and transport infrastructure, and the generation of positive externalities through economies of agglomeration. Finally, in terms of Internationalization Advantages (IA), the most influential factors are transaction cost and transfer of cost. Nevertheless, the authors conclude that these aspects of IA are not as relevant as are the factors of FSA or CSA. Based again on the eclectic theory from Dunning, Quintana-Navio (2007) analyse the dominant factors -- FSA, CSA and IA -- that may shape a company's approach to FDI. His study makes a different contribution as it is focused on big, family-owned Spanish multinationals. Quintana-Navio (2007) concludes that attention and resources should aim at the factors of: professionalism of management, management and board of directors' capacities, barriers to entry in the new country, the "family situation", the financial structure of the enterprise, tax issues and the impact of internationalization on the family distribution of ownership. These results are further supported by Puig-Raposo and Fernández-Pérez (2009).

2.4. Relationship between FDI and exports

FDI and exports seem to be causally related, as both of them represent an approach to foreign markets, but the actual relationship between the two is contested. There are theories that suggest complementarity, authors that claim a development from one to the other occurs during the process of multinationalization, and research that find no relationship or impact obtains between the two. What association there is between the two might also differ depending on allocation and country of origin (Durán-Herrera et al. 2007). The case of Spanish research and their multinationals is not different in this regard.

Barrios (1996) developed a study at an early stage of the expansion and development of Spanish FDI flows. Barrios' results are more conclusive on the impact of FDI inflows rather than outflows. When foreign companies performed a FDI in Spain, a positive impact on exports was observed. The impact of FDI outflows was inconclusive at the time, and Barrios consequently claimed that there was no relationship between them.

Consistent with the theory of Purvis (1972), Alguacil-Marí et al. (1999) find not only the complementarity of FDI and exports, but also a positive influence of the former on the latter. Exports did not diminish during the phase of high growth in FDI, leading the authors to conclude that there is a possibility that FDI allowed the economy to sustain high employment levels and complemented the exporting capacity of the country.

Bajo-Rubio & Montero-Muñoz (2001) develop further on the research of Alguacil-Marí et al (1999). The use of actual FDI outflow and export data from between 1977 and 1992 (rather than merely GDP shares) provides a clearer picture. The conclusions reached support previous research and argue for a potentially positive effect of outward FDI on exports volumes. Moreover the conclusions do not observed an association between deindustrialization and employment losses in the home country with FDI outflows (Bajo-Rubio & Montero-Muñoz 2001). On the other hand, the same year a study by Rodríguez-González (2001) found no clear connection between exports and FDI outflows. Rodríguez-González (2001) explains this lack of interaction in terms of the early stages of development on FDI outflows, calling, nonetheless, for further investigation of the subject, as positive complementarity should be expected to be observed.

Durán-Herrera (2007) contradicts most of previous results. His study was based on a sample of data between 1993 and 2005. This sample included all FDI undertaken by Spanish multinationals to eleven countries that accounted for 80% of the total FDI outflows. The results seem very clear, as in 85% of the cases the FDI was in substitution of exports. Nevertheless, as Durán-Herrera points out, his results should be taken carefully. Some 58% of the FDI was performed by sectors with a low export activity, while in the other 27%, FDI was a clear substitute for exports.

2.5. Type of Companies that perform FDI

The purpose of this chapter is to obtain conclusions regarding the size and type of company that usually performs FDI in Spain. Results are not relevant, as the most important factors usually refer to the OLI paradigm. Nonetheless, some of the research and conclusions are worth mentioning.

Spanish SMEs have a significant impact in terms of number of companies that performed FDI, as two thirds of companies that have performed any kind of FDI from Spain have less than 200 employees (Pastors 2007, Buisán-García & Espinosa-Malo 2007, Guillén-Rodríguez 2004). A commercial phase occurs first which is usually followed by FDI. The motivations informing this approach tend to be opportunities in foreign markets rather than internal market pressure. Companies try to make use of their acquired intangible capital and knowledge in the field (Pastors-Pérez 2007). These results are partially contradicted by the study of Buisán-García & Espinosa-Malo (2007), however, who support the importance of

SMEs to Spanish FDI. Nonetheless they defend, as main motivators, internal Spanish market pressure and a perceived need to match the multinationalization plans of larger corporations. These flows of FDI from SMEs are influenced and encouraged by the support of government agencies, such as the *Programa de Apoyo a Proyectos de Inversión Productiva* (PAPI or Support Program for Productive Investment Projects) program created by the *Instituto Español de Comercio Exterior* (ICEX) (Buisán-García & Aceña-Moreno 2007). This service provides some of the help needed by SMEs when they seek to develop an internationalization strategy. The main motivations for Spanish SMEs to undertake FDI include the following: the trend to follow foreign clients to third countries; the necessity to internationalize when high market share is reached on local markets; optimization of the business' logistics; and the assurance of raw materials supply or adaption to local markets. The PAPI program helps SMEs to finance the initial stages of investigating expansion opportunities. Almost 85% of PAPI-supported initiatives have resulted in successful FDI, proving the necessity, efficiency and impact of this type of agency (Buisán-García & Aceña-Moreno 2007). This results contrast with the ones obtained by Fernández & Nieto (2005) who argue that SMEs do not have sufficient resources to perform exports, even less to undertake FDI. It is worth mentioning that all companies studied in Fernández & Nieto (2005) were manufacturing companies and did not represent the 70% of SMEs which operate in the service sector in Spain (INE 2011).

Research has also expanded understandings of FDI performed by Spanish family enterprises. Authors such as Quintana-Navio (2007) have studied the levels of FDI achieved in recent years. Quintana-Navio (2007) indicates low levels of investment can be explained as due to specific barriers in the Spanish market and barriers on family businesses. These barriers are the result of the lack of internationalization of the Spanish economy caused by the political and institutional instability which obtained before the country joined the EU (Quintana-Navio 2007). Gallo & García-Pont (1996) support the same view as their study indicated a low willingness in family enterprises to create the necessary intangible assets for internationalization. Nevertheless, there are studies that contradict this point of view. Durán-Herrera (2006) and Valdaliso (2004) point out that big corporations, many previously state-owned, but also large family enterprises as well, have been the main sources of Spanish investment in Latin America.

Large multinational Spanish enterprises have been the subject of most of the research on this topic. As mentioned in the chapter on development above, different strategies and allocations were followed in different eras of Spanish economic internationalization, each one with different motivations (Guillén-Rodríguez 2004, Durán-Herrera 2006, Pastors-Perez 2007, Martínez-Martín 2009, Costa-Climent 2002). Previously mentioned authors established that OLI paradigm factors explain the attested FDI patterns, while size might also be a relevant consideration. The bigger the size of the company, the higher the probability is that the entity will perform a FDI (Galán-Zazo & González-Benito 2001). These results might explain the fact that big corporations from Spain account for most of the FDI performed nowadays. Considerable and expected (for a developed country) levels of FDI (stock) as a proportion of GDP obtain, but perhaps not the low proportion of Spanish companies that have proved willingness to undertake a project of this dimensions. Corporations of the S.A.⁴ type and Cooperativas (Cooperatives)⁵ are more likely to undertake FDI projects (Buisán-García & Espinosa-Malo 2007).

ETVE holding corporations represent a significant amount of FDI. From 2001-2006, the average investments performed by ETVEs accounted for almost 30% of national FDI, in some years reaching levels of almost 50% (Arahetes-García & García-Domonte, A 2006). Studies of Spanish FDI should take into account that some of ETVEs are owned by foreign companies, however, that undertake at the same time a FDI inflow and outflow to the Spanish economy. The “Confederación Española de Organizaciones Empresariales” (Spanish Confederation of Business Organizations or CEOE) studied the investment allocation from foreign investors in 2007. The CEOE found that a different pattern of sector allocation or field of interest occurred with foreign ETVE investors, which clearly needs to be taken into account in research. The current state of this type of holding corporation was also studied by Palacios-Pérez & Calvo-Saliner (2005). After being established ten years ago, the holding corporation has become an important tool for Spanish FDI. American and European companies frequently use ETVEs to invest in Latin America (also Santiso-Guimaras 2007).

⁴ S.A. stands for Sociedad Anónima (Anonymous Society). It is a similar business form to the Australian Proprietary Limited (Pty Ltd) “large” corporation.

⁵ Union of individual business owners (normally on agriculture or manufacturing sectors) that create this type of corporation to obtain the power of larger type of corporations.

The advantages of this legal form are significant, as ETVEs do not pay taxes on dividends from countries with double taxation agreements with Spain and enterprises assuming this legal structure do not pay the 30% corporate tax on the appreciation of their capital assets (Palacios-Pérez & Calvo-Salineró 2005). The benefits are clear and used by many big enterprises. ExxonMobil is a clear example. Its 2009 and 2010 profits from its Spanish holding ETVE, valued up to 10,000 million Euros, have not been liable to any taxation (Jiménez 2011). Fernández-Othero's (2004) in depth analysis supports this particular view and impact of ETVEs, especially on the FDI undertaken at the beginning of the 1990s.

2.6. Method of internationalization and FDI's scheme

The evolution of Spanish multinational enterprises has been analysed above, but there are different approaches which can be taken in multinationalization. There are multiple factors which may shape the structure of FDI, such as the amount of intangible assets of a firm, international experience and the perceived risk in the location country. This chapter presents the conclusions made in previous literature regarding the preference of performing a JV, exporting, undertaking Greenfields investments, etc. depending on internal and external factors.

The various FDI schemes that Spanish companies employ are investigated by Guillén-Rodríguez & García-Canal (2007). The main structures utilized were the following: acquisitions, creation of local subsidiaries, JV, participation in public biddings, administrative concessions and alliances. This conclusion and analysis was only possible because of the new database on FDI that ICEX has created. This database gathers all the interactions, inflows and outflows of investments to and from Spain allowing a better picture and understanding of the approach to foreign markets. Other methods, such as the inter-corporation loan, are defined and accounted as FDI by the government of Spain. However, as Fernández-Otheo (2004) points, the use of this method by Spanish companies is irrelevant as it is almost non-existent.

Previous modes of entry represent a wide range of methods used by Spanish firms, albeit being preferred, in most of the cases, is the one that allows a full control of the local subsidiary (Binda 2009, Calderón-García 2007, López-Duarte & Vidal-Suárez 2011, Pla-Barber 2001, López-Duarte & García-Canal 1998, 2004, Galán-Zazo & González-Benito 2001, García-Canal 2004, 2007). The investigations have been performed using a wide range

of methods explaining internal and external factors that influence the FDI configuration selected.

Binda (2009) performed an analysis of the internationalization of Spanish and Italian companies over the last 50 years. The results on Spain point out, aside from the obvious increase rates of internationalization, corporations prefer to use an M-form or diversified structure when they are totally devoted to international expansion. When their international orientation is modest, however, the functional/holding structure is preferred.

From a transaction cost point of view (Coase 1937 & Commons 1934), López-Duarte & García-Canal (1998) studied the FDI entry methods preferred by Spanish companies from 1988-1994. The authors separate the decision phase into two stages. The first one corresponded to the performance of an internal analysis of a company's own capacities and the decision to use internal capacities and knowledge, or to combine them with a foreign entity in the expectance of obtaining higher profitability margins. If a combination of knowledge was chosen, the second stage attends to the decision of performing an acquisition or a JV. The authors concluded a high-impact transaction cost at both stages. The most common type of FDI was executed through the creation of a new wholly own subsidiary, using actual knowledge and resources. The entry mode was only altered when companies needed a more profound knowledge of the market, technological knowledge or the need of higher capacity to influence local governments. In that case, the creation of a JV was the preferred solution. This method was especially used when the perceived cultural difference was high (also supported by Guillén-Rodríguez & García-Canal 2007). Galán-Zazo & González-Benito (2001) support the previously mentioned conclusions, stating that the favoured structure of FDI is wholly-owned subsidiary, followed by JV with majority and controlling ownership by Spanish investor.

Both the transaction cost approach and Uppsala internationalization model are challenged by Calderón-García et al. (2007) in the case of Spanish companies. Calderón-García et al. performed a multinationalization analysis (from export to FDI) concluding that previous experience does not influence mode of entry, but rather that corporate strategy is the most influential issue. The bigger the corporations are the higher the rates of control that they want to obtain, the more resources are committed, the higher the exposure to financial economic capability occurs and the less strategic risks are taken. This leads to a preference for forming new, wholly-owned subsidiaries, rather than JVs, franchise agreements or the establishment

of commercial offices abroad (meaning less risk but also less capacity for control). The second-most influential factors discerned by Calderón-García et al. (2007) are the external challenges, country and industry risk, that shape the need to adjust the method of FDI.

The influence of external factors was further studied by López-Duarte & Vidal-Suárez (2011). Their research, already been mentioned above, entailed the creation of a new variable of “external uncertainty” that brings together both cultural distance and country risk. This new variable led López-Duarte & Vidal-Suárez to the conclusion that in the context of high external uncertainty and creating a new subsidiary, Spanish companies prefer to do business with at least one local partner, with all the advantages previously noted (knowledge of the local market, influence on political issues, etc.). In a context of low external uncertainty, however, companies have a preference for doing business alone. Nonetheless, the case of acquisitions reflects a different scenario. Firms require previous experience in the international and organizational fields to be able to integrate an already extant company into their organizational structure (García-Canal 2004). The complexities of this integration and resources (and risk) commitment shape the mode of FDI, making Spanish companies prefer to make these investments singularly. This supports the findings of the previously mentioned study by López-Duarte & García-Canal (1998) and Guillén-Rodríguez & García-Canal (2007). Nevertheless, the study by López-Duarte & Vidal-Suárez (2011) was performed on companies that were currently on the stock market, and the FDI were mostly performed to countries with low country risk (following the OECD criteria), or in the case of high risk, countries with low cultural difference.

Finally, the role of alliances is significant when investing in countries classified as being in earlier stages of IDP (García-Canal 2004). García-Canal analyses the roles of strategic alliances for big Spanish multinational expansion. The conclusions, based only on listed companies, makes clear the relevance of local alliances. Local alliances are the relationships created with a local entity in a foreign country to produce or sell abroad, usually involving some sort of FDI (García-Canal 2004). Alliances account for almost 70% of associations made by Spanish companies when internationalization is the purpose. Local coalitions are therefore significantly more relevant than global or domestic alliances. However, this type of FDI is of declining relevance these days, as acquisitions and new, wholly-owned subsidiaries account for most new Spanish FDI (López-García & García-Canal 2005). Alliances only become relevant when Spanish interests approach countries which are not members of the OECD

(where a higher risk is perceived), and they are developed during the early stages of the FDI in these countries (Guillén-Rodríguez & García-Canal 2007).

2.7. Impact of FDI

Performing FDI also has an influence on company valuation, global positioning and the broader economy. A few recent articles have been selected in what follows in order to analyse briefly some of these issues and how investment abroad influences them.

Fernandez-Otheo & Myro-Sanchez (2008) analyse one of the first expected impacts of investment abroad, the profitability of the investments. The authors observe a fast income increase on the last 15 years, but conclude that is only due to the rapidity of the development abroad. In terms of GDP, profitability was considerably lower. The medium profitability of foreign Spanish assets was lower than the average one obtained by other European countries. Furthermore, higher profitability was obtained by performing FDI through the ownership of foreign assets rather than inter-company loans. Nonetheless, the study by Buisán-García & Espinosa-Malo (2007) reflects a sense of satisfaction concerning 90% of the FDI performed. Corporations perceive an increase on their competitive advantage that is encouraging them to perform more investments in China, Mexico, Brazil, USA and Eastern European countries.

Arahetes-García & García-Domonte (2006) developed on the studies performed by Feldstein (1995) on the impact of FDI outflows on domestic investments. They concluded that Spain followed a different trend, as FDI outflows had little or no impact on the local amount of investment (see, also, CEOE 2007). The main factors that influenced domestic capital creation, in order of importance, are: FDI inflows, other entrance of investments, and domestic savings. Having FDI outflows has an insignificant negative impact in this regard. This research compliments the study by Durán-Herrera (2007). The investigation explains the impacts of FDI outflows and exports on the economic growth of Spain. Durán-Herrera (2007) finds a complementary relationship where both factors, economic growth and FDI's outflows, have a positive impact on each other.

Dajani-González & Blanco-Estévez (2010) defend the impact of internationalization, through exports and FDI, on the global competitive positioning of a country. Their analysis of patterns of FDI inflows and outflows helped defend current practice and rebut arguments regarding the supposed current loss of competitive advantage in the Spanish economy. Cerviño, Sanchez & Cubillo (2005a, 2005b) had already investigated the issue, analysing the

impact of commercial brands on the competitive position of Spain. Their conclusions are clear: while Spain has relevant positions the global market, the lack of brand recognition creates a gap that influences in the competitive position of the economy and the performance of international approaches. Cerviño & Rivera (2007) argue the necessity to close that gap using and creating a “Made in Spain” reputation, and Velasco-Rami (2009) supports the creation of better branding to expand and be more efficient internationally.

A corporation’s valuation and share price might also be affected when performing FDI, with different impacts depending on the scheme used (Garcia-Canal & Lopez-Duarte 2004, 2005, 2007). Early studies did not find statistically relevant results, even though a pattern of positive returns is observed with investment in newly-created, wholly-owned subsidiaries and JVs, and negative returns when performing an acquisition. Nevertheless, Garcia-Canal & Lopez-Duarte (2004) find that positive abnormal stock valuation occurs when investors possess high intangible assets, high treasury accounts, lower cultural differences or investment in OECD countries. Garcia-Canal & Lopez-Duarte (2005) conclude that Spanish companies’ potential increases significantly when performing FDI, improving immediate profitability and market valuation. Their research was further developed on in 2007, with returns up to 1% higher being claimed when acquisitions are undertaken through direct FDI, whereas negative returns occur when JVs are formed. Garcia-Canal & Lopez-Duarte (2007) conclude with findings clearly supporting the Uppsala model and Dunning’s eclectic theory. Companies with more experience make acquisitions, but the returns are expected to be higher than those which obtain for companies with less experience and which prefer to undertake international expansion through the medium of JVs.

2.8. FDI support

Spanish corporations receive the support of the previously mentioned agency, ICEX, but there is a wide range of schemes and agencies that encourage investments abroad. Costa-Climent (2002), in his study of Spanish FDI in the 1990s, analyses the wide range of supporting frameworks that have helped over the years to encourage and develop investments abroad. The first group that was identified are those features that help the security and stability of the investments. In this group assistance is provided by: the *Acuerdo para la Promoción y Protección Recíproca de Inversiones* (Agreement on Reciprocal Promotion and Protection of Investments or APPRI), the financial support from the *Instituto de Crédito Oficial* (Public Credit Institute or ICO) or the insurance provided by the Multilareal

Investment Guarantee Agency (MIGA) is mentioned. The second group of supporting mechanisms refers to an initiative proposed by the Spanish government to help reduce the public debt of developing countries and to raise the investment allocation in such countries. The third groups refers to the tax policies that encourage FDI, as tax reductions apply on investments in order to encourage exports and double taxation agreements also exist (such as that which applies between Spain and Australia). Finally, Costa-Climent (2002) mentions the information tools which are available to support Spanish firms. The work performed by the ICEX, assessing and helping when approaching FDI, or each one of their offices around the world, providing with relevant information about the country, significantly impacted on the performance and the expansion of investments abroad.

The Club de Exportadores e Inversores Españoles (Spanish Exports and Investors Club) and Iberglobal are two other associations that support efforts to improve Spain's competitive situation. Since 2005, these two organizations have created on a joint basis the '*Indice the valoracion de la inversion Española en el exterior*' (Valuation index of Spanish investments abroad or IVIEE). This index charts the perception and attractiveness of a range of countries of the world (Australia is not included) and it aims to help the decision process of allocation of Spanish FDI. The index is created through a questionnaire sent to businesses which undertake FDI, where they classify and evaluate each element (economic, political, legal and success factors) of attractiveness/unattractiveness of the included countries (Jose-Zaballa 2011). IVIEE is acquiring considerable relevance as it is being used both by Spanish investors and the Spanish government in the process of performing as well as allocating FDI (Club Exportadores 2011). Jose-Zaballa (2011) investigated the index further and remarks on its evolution: it was originally created as an academic tool and nowadays is being utilized as an industry tool as well. This development is significant as it is not only used during the allocation process, but it is also being used by other countries which hope to improve their attractiveness to foreign investors. IVIEE has turned into an important tool for Spanish companies performing FDI (Jose-Zaballa 2011).

2.9. Main sectors performing FDI and main sectors that attract FDI

The research on which sectors perform and receive FDI is extensive, but inconclusive, as many different results and opinions can be found in the literature. The range of sectors/companies that have been studied individually is wide as well. The limitations

required of this paper preclude a comprehensive overview of this literature, although a representative sample is surveyed below.

There seems to be an agreement that the most active companies in initiating Spanish FDI are the ones involved in finance and insurance, energy (especially, most recently, in the renewable sector) and telecommunications (Duran-Herrera 2004, 2006, Guillén-Rodríguez & Garcia-Canal 2007, AFI 2011, Fernandez-Otheo 2004, Casilda-Béjar, 2011). Pastors-Pérez (2007) explains the FDI motivations for most SMEs and which sectors more commonly perform FDI outflows in Spain. The companies that are involved are characterised by: innovation in high-volume environments, exclusivity, highly differentiated market segments and when the size of the local Spanish market is too big to sustain only a few competitors (local and abroad) and where economies of scale are necessary to remain competitive. On the other hand, Molero's (1999) internal and capital analysis of corporations (based in Dunning's eclectic theory) finds that no market segment is particularly relevant where Spanish FDI is concerned as it is companies from different sectors which achieve the highest volumes of internationalization.

Some examples of individual sectors and companies case studies are the following. Torres-Villanueva (2009) analyse the internationalization process of construction companies. Guillén & Tschoegl (1999) study the development of Spanish banks in Latin America. Bosch-Badía (2008) examine the international expansion of Repsol S.A., the Spanish energy company which performed one of the largest Spanish FDI outflows in 1999 when they bought the Argentinian oil company Yacimientos Petrolíferos Fiscales (YPF) (Lopez-Duarte & Garcia-Canal 2007, Fernandez-Otheo 2004). Azagra-Blaquez (2002) and Miranda-Robredo (2002) analyse the internationalization of other Spanish energy companies, studying Iberdrola and Endesa, respectively.

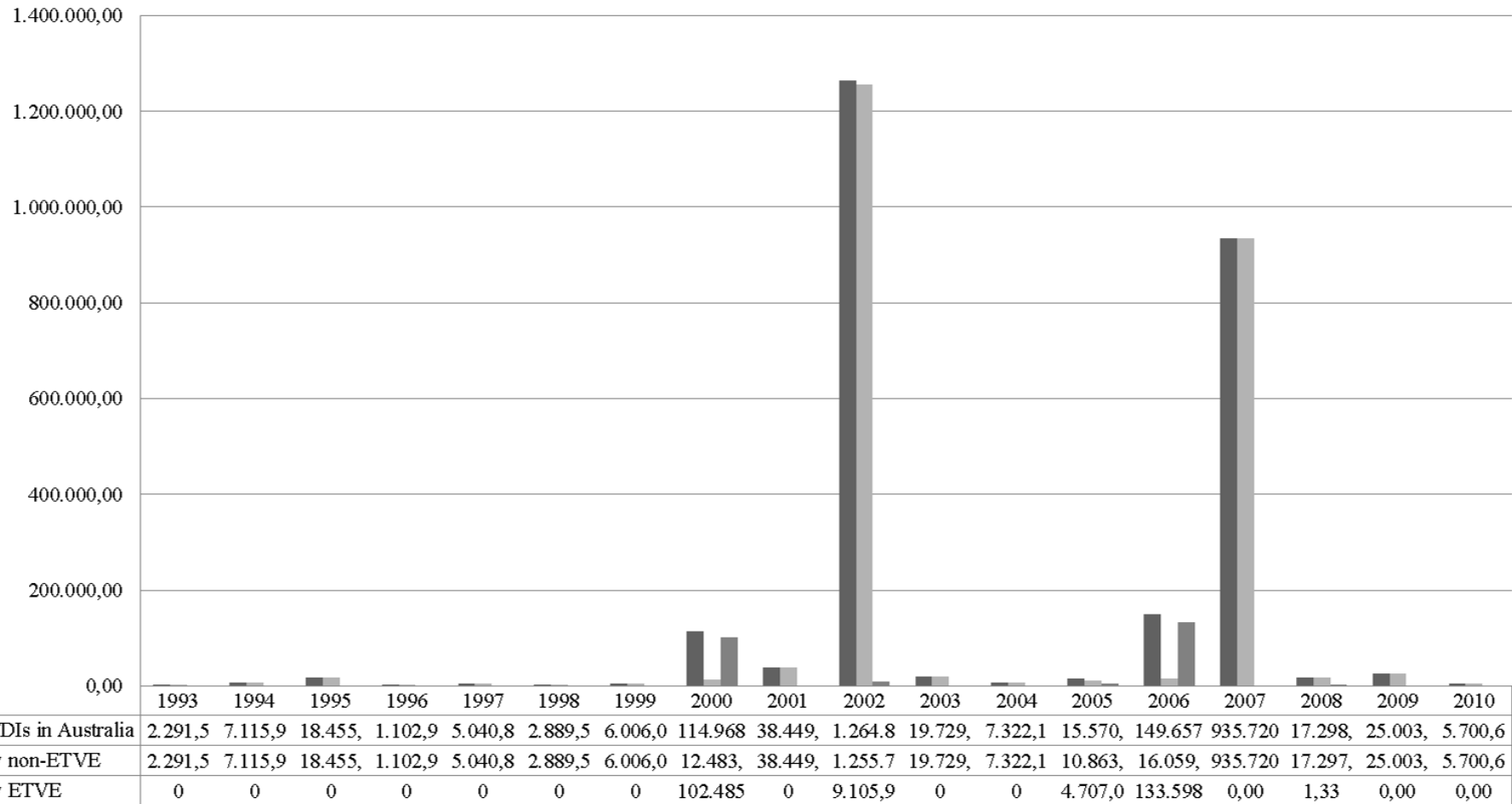
3. Data Analysis

3.1. Gross FDI

The investments performed by Spanish corporations in Australia follow an irregular pattern throughout time. Figure 1 provides a comparison of the gross investments performed in Australia, dividing investments by the type of corporation (ETVE or non-ETVE). As previously mentioned, ETVEs are used as holding companies for foreign assets and enjoy tax advantage on dividends received and capital value growth. Over the eighteen years period, the yearly average investment was 146.5 million euros annually. This value provides a rather biased measurement, as most of the years the gross amount did not exceed 40 million euros. 2000, 2002, 2006 and 2007 represent the years with extraordinary values. The investments in 2002 and 2007 are considerably higher and were performed by non-ETVE corporations. The analysis of the data and tracking of investments reveals the source of these significantly high values. It corresponds to two large investments, which account for more than half of the total gross volume invested between 1992 and 2010. These investments are related to the mining sector and correspond to the acquisition of Australian corporations. The investments in 2000 and 2006 are also remarkable. Both years the capital allocation exceeded 100 million euros. The investments were mainly performed by ETVEs, accounting in both cases for 89% of the annually investments in Australia.

As far as utilization of ETVEs is concerned, the use of these entities does not seem significant in the case of FDI in Australia. Less than 10% of the FDI was performed using this kind of corporations. ETVEs only performed investments in 2000, 2002, 2005 and 2006, the ones performed in the first and last year being the most remarkable.

Figure 1: Gross Spanish FDI in Australia, ETVE vs. non-ETVE



Note: Values in thousands of euros.

Source: Figures extracted from Datainvox (2011)

3.2. Comparison to Spain

An analysis and comparison to Spanish total gross FDI is necessary to elaborate the importance of these investments for the peninsular country. Table 1 presents the results of the relative weight of FDI allocated to Australia compared to the total FDI outflow from Spanish companies to the whole world. As stated in the literature review and as is seen in these results, investments performed in Australia are not significant in global terms. The gross volume of Spanish FDI outflows for the last 18 years is just over 650 billion euros. Meanwhile, the outflows performed to Australia during this period only account for less than 2.65 billion euros. In conclusion, only 0.4% of the investments outflowing from Spain were allocated in Australia. Compared to the rest of the world, the share rarely exceeded 0.5% p.a. of the total investments performed, and the average yearly value is 0.2778% of the total Spanish FDI outflows. In this context, it is important to analyse the exceptional high investment volume in 2002 and 2007. The first investment significantly shaped the allocation pattern as Australia attracted 2.69% of Spanish FDI in 2002.

The main allocating sectors from a global perspective have been mentioned on the literature review but an aggregated and representative view on allocations can be observed in appendix 1. Almost all sectors in Spain have performed some type of FDI. The main sectors allocating investments abroad are the *Financial Services sector* (CNAE 64), representing more than 60% of Spanish FDI, followed by *Telecommunications* (CNAE 61), *Energy* (CNAE 35) and the *Manufacturing of non-metallic mineral products* (CNAE 23)⁶. Also relevant on a smaller scale are the investments performed in the *Chemistry sector* (CNAE 20), the *Construction sector* (CNAE 41), *Commercial (wholesale)* sector (CNAE 46)⁷. These results are consistent with findings made by Duran-Herrera (2004, 2006), Guillén & Garcia-Canal (2007), AFI (2011), Fernandez-Otheo (2004) and Casilda-Béjar, (2011). This major allocation pattern is only applied partially regarding Spanish FDI performed in Australia. Characteristics of Spanish FDI in Australia will be elaborated in the following paragraphs.

⁶ The gross volume of these sectors is three times larger the average volume.

⁷ The gross volume is twice as large as the average volume.

Table 1: Spanish FDI outflows to Australia

Year	Percentage of FDI to Australia
1993	0.1217%
1994	0.1680%
1995	0.3080%
1996	0.0220%
1997	0.0479%
1998	0.0187%
1999	0.0117%
2000	0.1901%
2001	0.0803%
2002	2.6912%
2003	0.0620%
2004	0.0148%
2005	0.0450%
2006	0.2257%
2007	0.8367%
2008	0.0372%
2009	0.1036%
2010	0.0150%

Source: Figures extracted from Datainvox (2011)

3.3. Gross vs. Net FDI

The difference in values between gross and net FDI is mainly caused by including disinvestments in the net values. Figure 2 provides an accurate yearly comparison of measurements, giving a clear image of the dissimilarity between both. Due to the relative low volume of capital outflows to Australia, in many periods gross and net measurements coincide exactly. The observable and significant differences⁸ took place the following years: 1993, 1997, 1999, 2000, 2007 and 2009.

Especially remarkable is the differential in 2009 and 2007. Due to the disinvestments in the mining sector in 2009, the gap between net and gross FDI exceeds 1 billion euros. In 2007, the difference is smaller, as the disparity is approximately half of the previous amount. These disinvestments took place in the sector storing and complementary activities to transportation.

⁸ More than 20% difference.

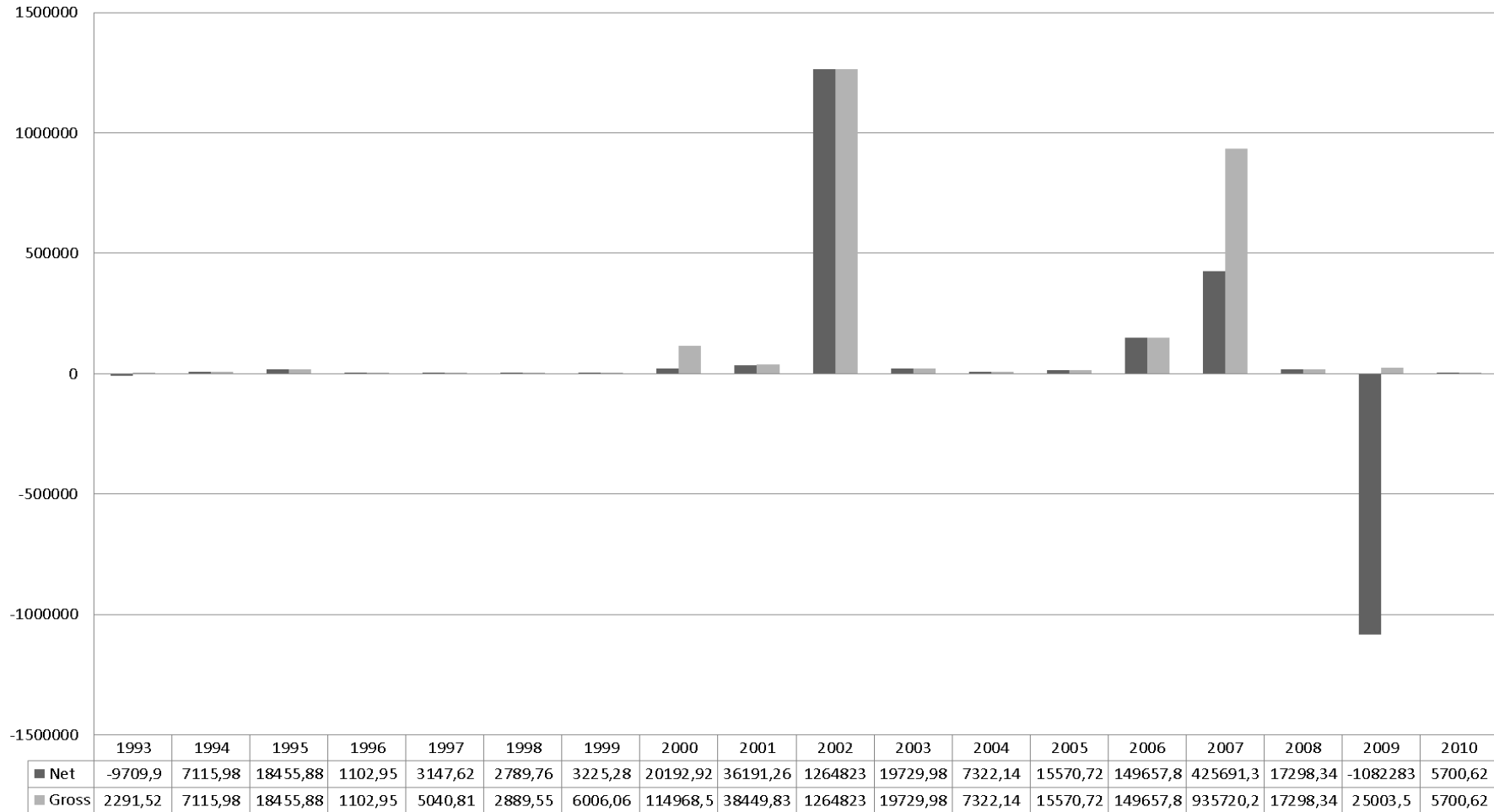
A more detailed analysis of the data and investigations of media release reveals the source of disinvestments were only two operations. In the case of 2009, the capital relocation was performed in the cement sector, whereas the disinvestment in 2007 took place in the aviation auxiliary activities sector.

The nature of Spanish FDI outflows to Australia is significantly influenced by these two events. The current stock of capital allocation to Australia, in gross terminology, slightly exceeds 2.5 billion euros, since 1993. This number is significantly reduced when analysing the real stock. Currently, if the capital allocation before 1993 is not taken into account, Spanish corporations are holding shares of Australian corporations for a value just below 1 billion euros. This low real stock of FDI can be used to argue a weak economic relationship between Spain and Australia. Moreover, the high value of investments and disinvestments confirms the impression that the capital allocation between the countries is based on opportunities. Further empirical investigation is needed to validate these assumed motivations, but as was explained in the literature review, Spanish companies seem to be more attracted by unexploited markets or opportunities that involve using existing knowledge abroad.

Only in the finance sector does it seem that a constant allocation of capital in various sectors, a matter which might be inspired by attempts to diversify risk. Nevertheless, the use of financial subsidiaries as investing vehicles might be misleading. Some Spanish corporations are investing in Australia through their financial subsidiaries, and where a heterogeneous⁹ diversification strategy might seem to be the underlying stimulus, companies may in fact be investing in the exact same sector. The individual allocation and performance of investments will be analysed to obtain more detailed information regarding the motivation.

⁹ Undertaking or acquiring activities in a sector not related to the core business activity.

Figure 2: Gross vs. Net Spanish FDI



Note: Values in thousands of euros

Source: Figures extracted from Datainvox (2011)

3.4. Origin sectors, Spanish corporations investing in Australia

Between 1993 and 2010, 24 Spanish sectors were responsible for investments in Australia. Table 2 reflects the relevant sectors, as well as the percentage share on the total amount invested within that time frame. As previously mentioned, the relevant origin sectors are CNAE 23, 24 and 64. These correspond to the activities of *Manufacturing of non-metallic mineral products*, *Metallurgy*, *manufacturing of iron products, steel* as well as *Financial services, except insurance and pension funds*. Altogether, the sectors account for more than 95% of the gross FDI. The following sections will discuss the different underlying motivations in detail.

3.4.1. Manufacturing of non-metallic mineral products (CNAE 23)

When analysing the FDI in Australia by Spanish corporations, this sector becomes especially relevant. *Manufacturing of non-metallic mineral products* accounts for a total share of almost 34% of the gross FDI performed in the most recent years.

The source of this high volume allocation is a single investment performed in 2007. The investment's origin is accounted a Spanish entity in the database, involved in the cement business (same as allocation sector) with an investment capacity of over 887 million euros. Initially, it looked like business expansion into new markets was the main motivator. Yet data tracking and analysis indicate that the investment took place in a different way. Expansion or entering new markets might be indeed the underlying motivation. However, this individual investment originated from Cementos Mexicanos, S.A.B de C.V. (CEMEX), which is a well-known Mexican corporation in the building materials sector (CEMEX 2008).

Rinker Group Limited was acquired by CEMEX in 2007 and its 15.3 billion US dollar magnitude (Reuter 2007) required the use of funds and corporations located in several different countries (Santiso 2008, p. 14). Spain was one of them. The acquisition required the usage of funds proceeding from CEMEX España, S.A. (887 million euros) and the utilization of an ETVE holding corporation (33 million euros). CEMEX España S.A. is the indirect owner of all international operations of CEMEX, S.A.B. de C.V. (CEMEX 2008). As previously mentioned, these investments account for the spike in the volume of FDI in 2007.

Table 2: Sector allocation of Spanish FDI in Australia

Sector Gross FDI Allocation in Australia 1993 - 2010			
CNAE	Sector of Origin	thousands, EUR	%
3	Fish and aquaculture	4,374.15	0.165
11	Beverages	21,371.79	0.808
13	Textile Industry	426.71	0.016
14	Clothes Manufacturing	109.54	0.004
20	Chemistry Industry	4,168.27	0.158
21	Pharmaceutical Products	25,000.00	0.945
22	Manufacturing of Plastics and rubber	281.44	0.011
23	Manufacturing of non-metallic mineral products	890,629.08	33.680
24	Metallurgy, manufacturing of iron products, steel	1,019,810.09	38.566
26	Manufacturing of computer supplies, electronics	26.29	0.001
27	Manufacturing of electrical machinery and equip	5,942.68	0.225
29	Manufacturing of vehicles, trailers	5,891.31	0.223
31	Manufacturing of furniture	18.46	0.001
35	Supplying of electric energy, gas, steam and air	4,419.06	0.167
41	Building construction	134.26	0.005
42	Civil Engineering	862.67	0.033
43	Activities of Specialized Construction	5,861.71	0.222
46	Wholesalers and intermediaries, except motor vehicles	3,091.26	0.117
52	Storing and complementary activities to transportation	10,550.49	0.399
58	Publishing	6,846.95	0.259
61	Telecommunications	276.13	0.010
64	Financial services, except insurance and pension funds	594,107.43	22.467
69	Juridical activities and accounting	30,466.44	1.152
70	Headquarters activity, consulting activities	9,688.31	0.366
Total		2,644,354.52	100.00

Source: Figures extracted for Datainvox (2011)

Based on prior explanations it can be concluded that the sole corporate operation was a main motivation from a Spanish perspective. Although this investment was meant to create one of the largest corporations in the building material sector (CEMEX 2007), it does not represent a capital allocation from a Spanish entity as it was a Mexican company that made the actual investment. Spain exclusively adopted the position of transmitter or intermediary.

Nevertheless, the actual impact or importance of this operation should be allowed for. When comparing the actual gross versus net FDI, a high disinvestment is indicated in 2009 (2nd quarter) in the cement sector. The gross amount is just above 1.11 billion Euros. This capital

relocation most probably corresponds to CEMEX selling its Australian business operations to Holcim Group (CEMEX 2009). The financial and liquidity issues of the acquisition mentioned above led the enormous Mexican corporation to disinvest from the Australian market. The operation was finished on June 15th 2009 (2nd quarter) for a gross volume of 2.02 billion AUD (CEMEX 2009). Combining this information with the fact that the actual exchange rate of the period of June 2009 fluctuated between 0.5628-0.5819 (Yahoo Finance 2011), making the operation value match the disinvestment value, leads to the conclusion that the Mexican cement conglomerate used their Spanish holding corporation to disinvest from Australia. The reasoning behind this decision is probably the already mentioned tax benefits of ETVE corporations.

3.4.2. Metallurgy, manufacturing of iron products, steel (CNAE 24)

Another individual investment in 2002 provides the sector of *Metallurgy, manufacturing of iron products, steel* with a share of more than 38% of the gross FDI performed in Australia since 1993. The total value exceeds 1 billion euros and it was performed on the third quarter of the previously mentioned year. The investment was allocated in a firm in the coal mining sector, leading to the impression that the main motivation was a diversification strategy.

Closer analysis and investigation reveals a different source of motivation for this transaction. On 9th September 2002, the Spanish company Asturiana de Zinc S.A. merged with the business unit located in Spain of Xstrata Zinc, from the group of Xstrata Plc. (AZSA 2002). The merger was implemented through an increase of capital of Asturiana de Zinc, to which shares were subscribed by the firm Xstrata Zinc, B.V (providing control and most of the ownership). In return for this capital increase, the Spanish firm received 37% of the stock of Xstrata Coal Australia Pty Ltd (AZSA 2002). In subsequent operation, the Spanish firm acquired the remaining stocks (63%) of the Australian firm for the value of the FDI performed on 2002, 1 billion euros. The operation was fully financed by the group Xstrata Zinc, B.V. (AZSA 2002), and consequently did not represent any real relocation of Spanish funds to the Australian market. Once more, a corporate operation motivation was observed in the FDI allocation scheme.

3.4.3. Financial services, except insurance and pension funds (CNAE 64)

The Spanish finance sector accounts for a smaller percentage compared to the elaborated investments above and is characterised by a much broader allocation. Multiple sectors have

attracted capital from Spain, obtaining a gross total amount exceeding 594 million euros. The complexity of financial institutions and their subsidiaries, the relative high number of corporations involved in Australia through just commercial subsidiaries¹⁰ and the limitations of the paper at hand do not allow conclusions to be drawn from all executed FDI. Relevant investments, allocation industries and motivations are described out below.

ETVE corporations are a characteristic of this sector; all holding entities are classified under the CNAE 64. The gross amount that has been utilized through this type of corporations adds up to the value of 255 million euros, representing just over 40% of the FDI performed by the Spanish financial services sector.

The highest investment performed by the financial sector was allocated to the sector of *Storing and complementary activities to transportation*. The investment took place in 2002 and totalled an amount of over 233 million euros. This value corresponds to the participation share of the world's largest-ever airport privatisation (Ferrovial 2002b). Ferrovial Infraestructuras SA acquired 19% of the shares of Sydney Airport in a consortium that required a total gross investment of over 3,850 million euros for all the participants (El País 2002). The operation was performed through financial institutions for Ferrovial on 25th June 2002 (Ferrovial 2002a). The investment position was reinforced in 2003 with the acquisition of complementary 1.28% of the shares for another 10.5 million euros (Ferrovial 2010, El País 2003), this time performed through the main corporation. The motivation for this investment is unclear. Spain was growing strongly at the time, therefore the most probable cause for these investments was a diversification strategy, rather than opportunity¹¹. Nonetheless, aside from motivational purposes, it has to be stressed that the profitability of this investment is highly remarkable. The high disinvestment mentioned above corresponds to the sale of these shares (Ferrovial 2007). The Spanish corporation liquidated its investment position due to the execution of purchasing options by Macquarie Airports (MAp). The options allowed MAp to acquire of 20.9% of Sydney Airport for a total value exceeding 1 billion AUD. Ferrovial

¹⁰ Using financial subsidiaries to fund international allocations.

¹¹ The Spanish market at the time was full of opportunities in the infrastructure and construction industry. Therefore, it would seem incongruent to perform the second largest investment of the company abroad, whilst having promising opportunities in the domestic markets. Further research would be necessary to obtain unambiguous results about the objectives.

received an amount of almost 550 million euros, which after transaction cost and tax represented 500 million euros and it was fully disinvested.

Wholesalers and intermediaries, except motor vehicles (CNAE 46) attracted the second largest amount of investment. These allocations or investments are basically restricted to the acquisition or opening of commercial offices to expand retailing. The acquisition of Hurlcon Holdings Pty Ltd in 2006 by Fluindra S.A. is included in this sector. The 10 million euros operation was performed through the subsidiary AstalPool in 2006 (Fluindra 2007). The purpose of this allocation was to increase access to the Australian market. More than 90 employees in Australia were brought into the group and the sales were expected to boost the revenues of their swimming pool division. It was especially focused on the World Swimming Championship celebrated in Melbourne in 2007 (Strebl 2006). It appears the main motivation for Fluindra was the access to a new market or diversification. The investments performed by ETVE organisations in 2006 are also relevant. ETVEs distributed a total amount of 133 million euros. Because of the characteristics and complexities of this type of corporation, no explicit evidence was found that confirmed the source of this investment. Analysis of corporations acting in Australia revealed a government contract with the Sociedad Ibérica de Construcciones Eléctricas S.A. (The Iberian Society of Electrical Constructions or SICE) (SICE 2006a). This corporation is part of the Spanish group ACS, which operates in multiple businesses but is especially established in the construction sector. The contract was signed in 2006 to incorporate the Spanish company into the consortium involved in the Mitcham-Frankston Freeway (MFF), Eastlink project. The total value of the project was 2.5 billion Australian dollars. SICE was involved in the design and building the infrastructure of the toll Free-Flow system; furthermore the company was in charge of building the arches for the toll cameras and complex infrastructure matters. The system is meant to be one of the most developed in the world (SICE 2006b) and required the creation of an Australian subsidiary, SICE Pty Ltd. Due to the size of the project, responsibilities of the corporation, complexity of the system and commitment to the operation, the ETVE allocation could have taken place for the purpose of building up necessary funds to start up the project. ACS is focussed on an international expansion, seeking more opportunities, including in Australia. The acquisition of a contract for the water recycling facilities in Altona reflects the significant interest in this nation (ACS 2009), even though no investments have been accounted for in that year. Moreover, the acquisition in February 2011 of more than 33% of the shares of the German group Hochtief provided ACS with a sizeable stake in the Australian market (ACS 2011).

The Asia-Pacific branch of the German group owns 55% of shares of Leighton Holdings Ltd. ACS's intentions are to acquire full control of the German group; nevertheless, agreements have been signed already to avoid full control over the Australian group (Leighton 2011).

Telecommunications attracted the third largest share of investments after financial services. Operations performed through ETVE corporations allocated a total gross amount of 102 million euros in Australia in the year 2000. Nevertheless, the impact of the capital allocation from this sector is reduced due to the simultaneously occurring high disinvestments. In 2000, the final net capital allocation was approximately 8 million Euros, which represents a significantly lower value than the initial gross capital allocation.

Aside from major investments performed by financial institutions, like the ones previously mentioned, a pattern of capital allocation can be observed in several sectors. *Information services (CNAE 63)*, *Technical Services of Architecture and Engineering (CNAE 71)* and *Supplying of electric energy, gas, steam and air (CNAE 35)* are the main sources of these investments.

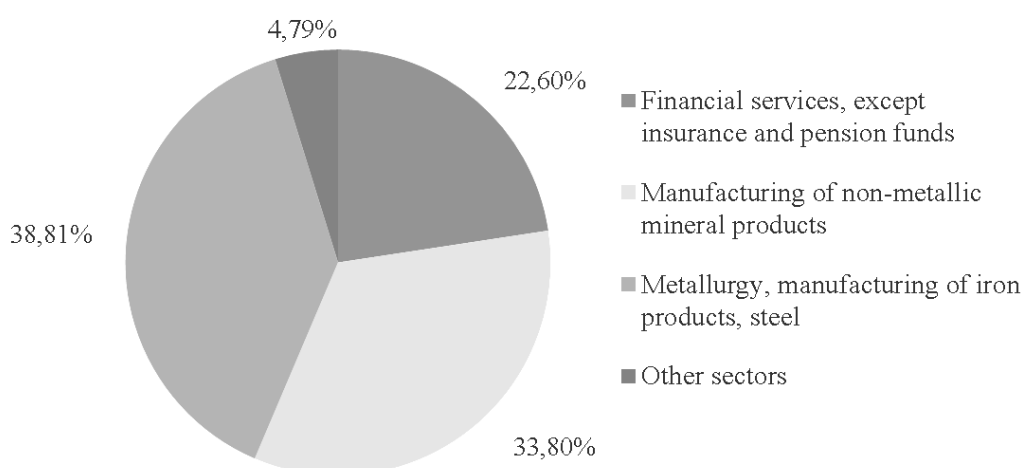
The first sector attracted a range of investments performed between 1997 and 2003, obtaining a gross amount of 33 million euros. Economic and financial information lead to the conclusion that these investments correspond to the ones performed by the Amadeus group in Australia. Amadeus IT Holdings S.A. was created in 1987 by a group of European Airlines: Air France, Lufthansa, Iberia and SAS, and its main corporation was located and centered in Spain (Amadeus 2011). The company has been active in the Australian region since 1997 (ASIC 2011a). Initially it was branded with the name of Atlas Travel Technologies Pty Ltd, converted later on to Amadeus GTD Australia Pty Ltd, and finally named Amadeus IT Pacific Pty Ltd (NZ Gov. 2011). The history and development of the company in Australia is extensive. The company is involved in a JV with Sabre Holdings since 2007, when they acquired MoneyDirect (MoneyDirect 2011). There have been several capital increases over the years, as mentioned in the 2002 Financial Statement (Amadeus 2003) and observable on Datainvex. The creation of Onerail Global Holdings Pty Ltd in 2000 (ASIC 2011b) was most likely the cause of the 17 million euros allocation in that same year.

The second sector corresponds to two capital allocations, both just over 6 million euros in the sector CNAE 71 during the years 2007 and 2008. Their importance is relative, as the net capital investments show that there was a relocation of investments in this sector with an actual disinvestment of 100,000 euros in 2007.

The third sector, energy supply, represents an allocation with a small initial investment of 60,000 euros in 2003, continuously receiving capital until 2006 and culminating in the modest amount of 4.3 million euros at the end of the period. The case of energy supplies activities and related operations seems to follow a different pattern, and will be analysed below.

It is worth mentioning the pattern of individual investments from the financial sector in other industries. Some of these investments reach considerable volume like some examples performed in the *Manufacturing of non-metallic mineral products*, reaching a volume of 33 million euros, probably linked to the previously elaborated acquisition by CEMEX (performed through an ETVE); or the investments performed in the sector of *Agriculture, cattle farming, hunting and related services*, achieving a value of gross FDI of 4.7 million euros. Moreover, various sectors have comparatively low volumes of capital flow. Further investigation will be needed to conclude what are the motivations for those allocations of hundreds or only a few thousands of euros. There are a few possible scenarios why this might occur. Such a low volume might correspond to Greenfield investments or JVs, where the share capital or owner's equity is invested as FDI and the remaining required capital is funded through company loans, venture capital or bank loans. Or it might correspond as well to adjustments in share capital that require small investments to balance the participation in the corporations.

Figure 3: Distribution of Spanish sectors performing FDI in Australia

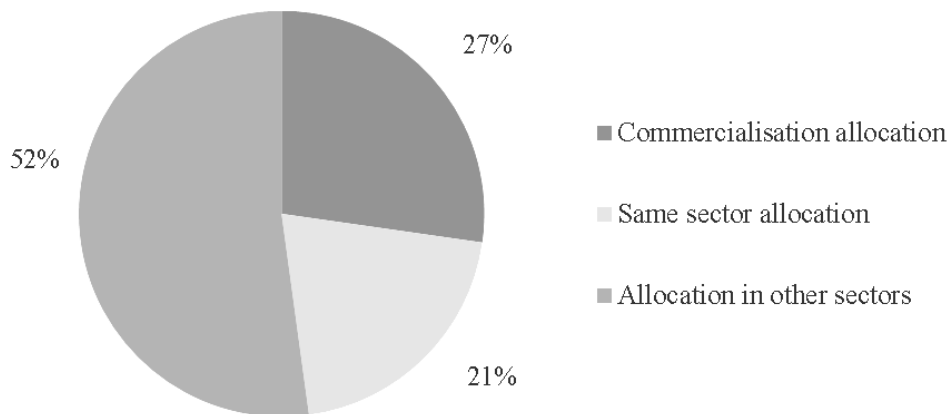


Source: Figures extracted from Datainvox (2011)

3.4.4. Other sectors

The remaining sectors allocated have a rather low investment volume, which is less than 126 million euros of the gross FDI Spanish outflows to Australia. Figure 4 provides a detailed segmentation to give a comparison of the allocation pattern.

Figure 4: Distribution pattern of Other Spanish FDI



Source: Figures extracted from Datainvox (2011)

The allocation of the residual FDI varies in its patterns and sectors. Analysing the remaining investment flows, it is found that only a minority of investors are allocating capital in the same sector as their own sector of origin. These investments account for only for 21% of the remaining gross amount. The allocation per sector did not reach in any event an amount exceeding 6 million euros. Several investments were observed over time, with the purpose of finally opening a subsidiary or increasing the investment in Australia. In other cases investments were performed on an individualistic basis.

The allocations by the *Manufacturing of vehicles, trailers* sector are stating an example of investments performed in the same sector as the firm's own industry. Power Electronics S.A: is the only company participating in this case. The Spanish corporation concerned funded Power Electronics Australia Pty Ltd in 2007 after several years of commercialization through distributors¹² (Power Electronics 2011). The current aggregated investment sums the amount of 5.9 million Euros.

¹² These commercialisation required a short sequences of FDI.

The range of investments by the *Fish and aquaculture* sector represents another example; nonetheless with an altered allocation routine. The only corporation performing these investments is Pescanova S.A. One of their first investments was performed in 1981 on Austral Fisheries Pty Ltd (Austral Fisheries 2011), with Pescanova buying 50% of Austral's stock (Pescanova 2003). Additional capital movements have taken place, making Pescanova a shareholder of Newfishing Australia Pty Ltd, Morekin Pty Ltd and Antarctic Polar Pty Ltd (Pescanova 2003) at different times over the observed 18 years. Nevertheless, currently the fishing company only holds stock in Austral Fisheries (30%) and Antarctic Polar (100%) (Pescanova 2010).

The *Supplying of electric energy, gas, steam and air* sector exemplifies the case of a single allocation. As previously mentioned, the sector follows an abnormal pattern. Even though various companies within this sector have invested in Australia, only one allocated the funds directly from their main entity to the Antipode. As stated in the financial sector analysis, it seems that energy corporations prefer to invest from their financial subsidiaries rather than using their main entity¹³. In 2008, gross investments performed by this sector accounted for 4.4 million euros.

The other 27% outstanding gross investments have been invested in commercialisation (*Wholesalers and intermediaries, except motor vehicles*). As stated before, the sole intention of these investments is the opening of commercial offices, wholesaler or retailer venues. The sector has mostly attracted individual investments with a relative low volume (under 5 million euros). The exceptions are the sectors of *Beverages* (CNAE 11) and *Manufacturing of electrical machinery and equipment* (CNAE 27). Both of these sectors have allocated a series of investments over the years. The first case corresponds to investments performed by the wine makers Freixenet, S.A. who started their business activities in Australia in 1992 (FMRE 2011). In 2001, the acquisition of 75% of the Wingara Wine Group (Wingara 2008) increased the investment value by almost 20 million euros in this sector. At the end of the process the total allocated capital amounted to 21.4 million euros. Looking at the profile of this corporation and its multinationalization strategy, a diversification strategy or competition in the Spanish market might indicate the motivation for investments in Australia. Situations like

¹³ Probably due to the tax benefits.

the current drop in consumption of wine due to the economic crisis (Wine Academy 2010) indicate the necessity for corporations like Freixenet to diversify risk.

The second case corresponds to investments performed by manufacturing companies like Teka S.A., Big Drum Ibérica S.A. and Fagor Industrial Sociedad Cooperativa, to expand operations. The first investments were allocated in 1995, the last being recorded on 2007, the total amount invested coming to 5.9 million euros. The motivation for these investments might be similar to the ones mentioned previously regarding the wine maker Freixenet. Due to the reputation and almost full potential acquired in the local markets, economies of scale and new markets stimulate FDI allocation to commercialize products.

The remaining 57% of the investments represent funds allocated to a different sector. These investments are characterized by a comparatively low frequency and number but relatively high volumes. The remarkable investment size is due to the high investments that the real estate sector has attracted from *Juridical activities and accounting* (CNAE 69) and *Headquarters activity, consulting activities* (CNAE 70) in Australia. The size of these investments exceeds 40 million euros, performed as continuous allocations between 1994 and 2003. They are pivotal investments performed by the first sector, as they surpass the amount of 30 million euros. Moreover, the acquisitions of a Swiss and Australian group by Grifols S.A. in 2009 boosted the share of investments by another 25 million euros (Grifols 2009). This investment corresponds to a capital increase evidenced on the group's balance sheet, providing making the Spanish corporation the major shareholder with 49% of the total shares of the association. The motivations for the investment were various and were explained in a Grifols press release (Grifols 2009). The purposes of the investments were to increase the commercial strength in the Australian and New Zealand market, the acquisition of the license for Flebogamma DIF to sell the product in the allocation market, and to obtain control over Medion Diagnostics A.G. This last corporation was developing a "new technology in blood group serology complementing and enhancing the existing Grifols product line" (Grifols 2009, p. 1). This investment has been further developed with another allocation of 9 million euros distributed between the Swiss and Australian subsidiaries (Austrade 2010a).

In conclusion, the possibilities of actual commercial relationships between both countries are rather remarkable. Due to the contracts that Navantia has concluded with the Australian government to produce the main structures of war ships (The Age 2007) other opportunities have arisen in the market. The JV between Gabadi S.L and Atenasa (from the group of Atein

Naval S.A.) is a supporting example for this assumption. The JV is obtaining contracts for multimillion dollar values with great potential for having more than commercial offices in Australia (Couce 2010). Navantia achieved contractual agreements to build two F-100 structures and the multibillion dollar value of the project required the use of local companies to work on different technical and engineering issues. Nevertheless, as the ships' finalization is planned to take place in Melbourne (The Age 2007), the need arises for companies like Navantia or the previously mentioned JV to open local offices to provide services in a more personalized manner during the completion of the projects.

3.4.5. Large projects developed by Spanish corporations

Within the last few years, Spanish corporations have won various considerably large contracts from the Australian government. Desalination plants, water recycling plants, tunnel infrastructure projects and wind farms are just a few examples of public tender processes that Spanish organizations were able to succeed in. Some of these contracts, most probably will show up on the current balance of payments, accounting as Spanish exports or Australian imports. Nonetheless, some of these contracts have involved the creation of JVs, consortiums or companies with considerable amounts of investment allocated to Australia. Because of the applied accounting methodology, these investments cannot be seen on the FDI database; nevertheless it is probably worth mentioning some examples, taking into account the size and their actual impact on the relationship between Spain and Australia. Some examples of companies that have acquired such contracts are: subsidiaries of Acciona S.A., Abengoa S.A., Sacyr Vallehermoso S.A., Union Fenosa Gas S.A., Grupo ACS S.A. and Técnicas Reunidas S.A.

Renewable energies and especially the wind sector are relevant markets for Spanish investment in Australia. Spain is becoming a market leader regarding the development of production sites for renewable energies (especially wind farms). World-record-winning wind energy production technology (AE 2009) underpins the developments that are taking place in Spain currently. Organizations are profiting from their knowledge in the business field to approach international operations and opportunities.

Acciona S.A., for example, has been investing in Australia since 2002 (Acciona 2011a). Multiple projects are taking place around the country, representing a gross investment allocation of 630 million Australian dollars since the commencement of the operations

(Acciona 2011b). Three wind farms have been constructed so far. In 2006, 238 million euros were invested on a wind farm in the state of Victoria (Cinco Días 2006), and the last project has finished just recently in New South Wales. The Gunning Park operation has a capacity of 46.5 MW and required the investment of 147 million AUD (Acciona 2011b). Acciona Infraestructuras S.A. has also obtained the leading role in the consortium to build a road tunnel in Brisbane, with a total value of 1.44 billion Australian dollars (Austrade 2010b). Acciona Agua S.A. is also of considerable significance. In 2009 Trillity Pty Ltd and Acciona Agua were awarded a contract to construct and operate for 20 years the Port Stanvac Desalination Plant in Adelaide. The contract was valued 1.83 billion AUD (Acciona 2009). In 2009 Union Fenosa S.A. registered its intentions to invest up to 1.9 billion AUD in clean energy. Projects like the one obtained in 2010, which aims to build a 484 million Australian dollar wind farm in Victoria reflect the long-term commitment and participation of Spanish companies in this growing Australian industry. Previously mentioned contracts like Navantia's shipbuilding agreement or ACS's Altona water-recycling plant should also be taken into consideration in this type of investment.

3.4.5. Australia's' FDI inflows from other nations

Major investments from Spain to Australia help to identify the type of relationship that both nations hold. But it is necessary to obtain a brief overview of the relationship with other nations in order to provide a comparison and a clearer perspective. A general overview of the most relevant capital interactions with Australia can be derived from Sanyal (2011). The United States followed by the United Kingdom still hold clear leading positions in FDI in Australia. The total stock held by both nations together, as of the end of 2009, exceeds the value of 1 trillion Australian dollars (Sanyal 2011). This figure also helps to illustrate the small impact or significance of Spanish FDI in Australia. Spain came in 17th position in 2008, and 37th on 2009 (mainly due to missing FDI data on Sanyal's table). In any case, Spain is still currently far behind other European nations – like Germany, The Netherlands or France – with which it could be more reasonably compared (Sanyal 2011).

The great dissimilarities between Spain and the Anglo-Saxon countries make it appear more reasonable to compare Spanish FDI with that of one of the previously mentioned Continental European nations. Germany is a good example, as its FDI allocations have received some attention from researchers and it has repeatedly appeared in a high-ranking position regarding capital allocations in Australia. Previous research indicates that diversification was as a

significant variable influencing capital allocations from Germany. This relationship was subject to detailed and in-depth analysis by Faeth (2005). The research was focussed on a range of specific variables and the influences of these on the capital allocation. Those variables represented different theories and motivations (for further details, see Faeth 2005, p. 36). Regarding FDI diversification strategy, Faeth identified as explaining variables market-based risk, the exchange rate and interest rates. Out of these three variables, the exchange rate was the only component significantly influencing investments allocation, nonetheless demonstrating the existence a diversification factor. Moreover, if the previously mentioned case Hochtief Group can be used as an example, the partial acquisition of a foreign corporation, operating in the same business sectors as the origin corporation, but without any major control might be an indicator of some degree of diversification¹⁴. The original entity is profiting from the same business activity but, as it is employing a different business strategy and earning in a new market, one of the motivations (if not the main one) has to be diversification.

¹⁴ It can be defined as Geographical diversification or Related diversification.

4. Results

The capital allocations from Spain to Australia are rather low and unbalanced. Investments in Australia represent a very low percentage of total FDI allocations, achieving a gross flow of 2.65 million euros. There are a few comparatively large investments that stand out and significantly impact on the average representation. Nevertheless there are no real patterns of significantly constant allocation to Australia. The impact of disinvestments is considerably large as well. The CEMEX and Ferrovial disinvestments substantially affected the measurement of total Spanish funds residing in Australia. Since 1992, the current total stock of Spanish investments in Australia is lower than the 1 billion euro figure.

Investments performed by CEMEX and Asturiana de Zinc represent around 1.9 billion euros. Corporate operations are the sole reasons for this FDI. The underlying motivations for these investments might support some of the theories mentioned on the literature review (e.g. Dunning's eclectic theory), but when analysing the incentives from a Spanish perspective, it is just a pure business transaction.

When analysing the pattern of investments without the large corporate operations, different results and motivations were reflected. At this stage it is difficult to point out the exact main incentives or source of capital attraction to Australia. Nonetheless, opportunities in the market and diversification strategies seem to represent a good explanation. The reasoning for businesses to allocate capital in Australia, as it has been demonstrated above, match in most cases one or another of these two strategies. The motivations in the financial sector are harder to analyse due to the usage of financial subsidiaries; however, similar incentives were observed.

If all investments are taken into account, a volume-weighted observation would significantly indicate that the most common type of FDI are acquisitions. On the other hand, observations of the remaining operations reveal a wider range of FDI methods employed. Acquisitions of already established Australian corporations, such as the acquisition by Freixenet of the Wingara group or the purchase of the Australian-Swiss group by Grifols, have also been considered above. Greenfields investments or creation of new subsidiaries can also be observed, as in the case of Powertronics or SICE, or the creation of new JV as Gabadi and Atenasa (both are Spanish organizations) or Pescanova with Kailis Fisheries Holdings Pty Ltd (Spanish and Australian corporations)..

5. Conclusions:

The study has provided an overview of the FDI patterns from Spain to Australia, observing the underlying motivation and the possible opportunistic factor for Spanish corporation to allocate funds in the Antipodes.

If the overall amount of investments is taken into consideration, more than 50% of the gross funds allocated were performed purely because of corporate operations originating from other countries. This fact contradicts almost all of the theories mentioned in the literature review. For example, Guillén-Rodríguez (2004), Quintana-Navio (2007), and Buisán-García & Espinosa-Malo (2007) found that most companies in Spain perform FDI because of competition in Europe when joining the European Union, due to ownership advantages. Clearly, the cases of Spanish FDI in Australia seem to follow a different pattern, as Spain is almost always positioned as an intermediary.

Due to the small scale of the remaining investments, the assumption of a possible FDI opportunity or diversification-incentivized strategy can be rejected. Therefore, Spain's allocating motivations differ from some of the largest European investors in Australia, for example Germany. Nonetheless, some investments have been observed to have a probable diversification approach. Multiple organizations have invested in commercial offices to sell and provide better services from on-site retailing: Fagor, Teka or the various energy-related corporations developing government projects are a few examples. In other cases, Spanish entities have acquired partial or total ownership of Australian corporations probably in order to have better access to the market. The FDI performed by the corporations Freixenet, Ferrovial and Pescanova are notable examples of this kind of capital allocation. In conclusion, the amount of FDI outflows from Spanish-funded corporations to Australia is small, but some allocation seems to be showing an understanding of risk diversification.

In conclusion, these results encourage further investigation of the impact of the tax conditions in Spain. The beneficial tax system (for ETVE and non-ETVE corporations)¹⁵ might be

¹⁵ It is noteworthy to mention that taxation system is not only beneficial to ETVE corporations but non-ETVEs as well. Australia and Spain formulated a double-taxation agreement in 1992 (Ministerio de Asuntos Exteriores 1992) which entitles to the deductions on earnings from ETVE corporations. It also permits tax deductions between 50% and 100% on earnings from other type of corporations (AEAT 2011).

significantly influencing some of the FDI patterns and allocations in other countries, as it does in Australia. Moreover, these results prove the willingness of corporations to expand or invest in the Antipodes, making the barriers between both countries solvable. Projecting the future relationship of both countries, among the already mentioned diversification component of investing in Australia, the outstanding profitability of past operations should increase the attractiveness of Australia as an investment location. Another catalysing circumstance is the current situation in Europe, which makes FDI allocations in the interrelated European markets rather precarious. Hence, Spanish investors and corporations are being forced to seek new international markets and Australia stands out as one of the highest-yielding countries for investment in the developed world. Taking all these beneficial aspects into account, Spanish companies should clearly classify Australia as one of the most appealing FDI locations in the world, expanding the diversification component and matching the investment proportions of other European nations. Being aware of these facts and understating the crisis as an opportunity to attract Spanish funds, Australian organizations and government entities should equally concentrate on the attractiveness, communication and informing Spanish business of the opportunities that arise in Australia.

There are some limitations to this study as some capital allocations might not be accounted because they were originated outside of the study period. Operations by Pescanova S.A. in 1981 or COMSA EMTE in 1992 are an example of FDI that are not included in this paper. Moreover, the study has assumed probable motivations after an individual study of each investment; nonetheless the information obtained was based on press releases and an FDI database. To obtain better understanding, now that the allocating businesses have been documented, further research into individual cases will be beneficial in pointing out exactly what were the deciding motivations.

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Appendix

1. Appendix 1:

Element	1993-2010	Perc.
	Gross FDI flows in thousands of Euros	
01 AGRICULTURA, GANADERÍA, CAZA Y SERV. RELACIONADOS	74.900,12	0,01%
02 SILVICULTURA Y EXPLOTACIÓN FORESTAL	49.885,84	0,01%
03 PESCA Y ACUICULTURA	680.525,42	0,10%
05 EXTRACCIÓN DE ANTRACITA, HULLA Y LIGNITO	22.236,49	0,00%
06 EXTRACCIÓN DE CRUDO DE PETRÓLEO Y GAS NATURAL	2.550.700,33	0,38%
07 EXTRACCIÓN DE MINERALES METÁLICOS	9.018,19	0,00%
08 OTRAS INDUSTRIAS EXTRACTIVAS	205.928,38	0,03%
09 ACTIVIDADES DE APOYO A LAS INDUSTRIAS EXTRACTIVAS	0,00	0,00%
10 INDUSTRIA DE LA ALIMENTACIÓN	5.100.768,80	0,76%
11 FABRICACIÓN DE BEBIDAS	1.872.576,75	0,28%
12 INDUSTRIA DEL TABACO	3.480.033,71	0,52%
13 INDUSTRIA TEXTIL	231.830,27	0,03%
14 CONFECCIÓN DE PRENDAS DE VESTIR	2.449.896,97	0,37%
15 INDUSTRIA DEL CUERO Y DEL CALZADO	65.347,98	0,01%
16 INDUSTRIA MADERA Y CORCHO, EXCEPTO MUEBLES, CESTERÍA	1.084.425,76	0,16%
17 INDUSTRIA DEL PAPEL	1.474.632,82	0,22%
18 ARTES GRÁFICAS Y REPRODUCCIÓN DE SOPORTES GRABADOS	95.657,32	0,01%
19 COQUERÍAS Y REFINO DE PETRÓLEO	179.153,36	0,03%
20 INDUSTRIA QUÍMICA	11.594.963,17	1,74%
21 FABRICACIÓN DE PRODUCTOS FARMACÉUTICOS	2.072.945,49	0,31%
22 FABRICACIÓN DE PRODUCTOS DE CAUCHO Y PLÁSTICOS	1.013.823,26	0,15%
23 FABRICACIÓN DE OTROS PRODUCTOS MINERALES NO METÁLICO	32.209.647,66	4,82%
24 METALURGIA; FABRICACION PRODUCTOS HIERRO, ACERO	5.378.964,28	0,81%
25 FABRICACIÓN DE PRODUCTOS METÁLICOS, EXCEPTO MAQUINAR	1.090.722,07	0,16%
26 FABRICACIÓN DE PRODUCTOS INFORMÁTICOS, ELECTRÓNICOS	466.813,79	0,07%
27 FABRICACIÓN DE MATERIAL Y EQUIPO ELÉCTRICO	1.959.078,29	0,29%
28 FABRICACIÓN DE MAQUINARIA Y EQUIPO N.C.O.P.	374.535,84	0,06%
29 FABRICACIÓN DE VEHÍCULOS DE MOTOR, REMOLQUES	3.024.154,41	0,45%
30 FABRICACIÓN DE OTRO MATERIAL DE TRANSPORTE	3.426.922,20	0,51%
31 FABRICACIÓN DE MUEBLES	154.945,16	0,02%
32 OTRAS INDUSTRIAS MANUFACTURERAS	138.971,42	0,02%
33 REPARACIÓN E INSTALACIÓN DE MAQUINARIA Y EQUIPO	195.304,61	0,03%
35 SUMINISTRO DE ENERGÍA ELÉCTRICA, GAS, VAPOR Y AIRE	35.783.962,49	5,36%
36 CAPTACIÓN, DEPURACIÓN Y DISTRIBUCIÓN DE AGUA	1.305.552,87	0,20%
37 RECOGIDA Y TRATAMIENTO DE AGUAS RESIDUALES	251,69	0,00%
38 RECOGIDA, TRATAMIENTO Y ELIMINACIÓN DE RESIDUOS	2.657.178,16	0,40%
39 ACTIVID. DE DESCONTAMINACIÓN Y OTROS SERVICIOS	8.201,74	0,00%
41 CONSTRUCCIÓN DE EDIFICIOS	13.324.722,54	1,99%
42 INGENIERÍA CIVIL	2.927.846,36	0,44%
43 ACTIVIDADES DE CONSTRUCCIÓN ESPECIALIZADA	928.562,07	0,14%
45 VENTA Y REPARACIÓN DE VEHÍCULOS DE MOTOR Y MOTOCICL.	517.207,22	0,08%
46 COMER.MAYOR E INTERME.COMERCIO,EXCEP.VEHÍCULOS MOTOR	9.528.726,98	1,43%
47 COMERCIO AL POR MENOR, EXCEPTO DE VEHÍCULOS DE MOTOR	5.275.371,92	0,79%
49 TRANSPORTE TERRESTRE Y POR TUBERÍA	85.242,37	0,01%

Element	1993-2010	
	Gross FDI flows in thousands of Euros	Perc
50 TRANSPORTE MARÍTIMO Y POR VÍAS NAVEGABLES INTERIORES	104.126,77	0,02%
51 TRANSPORTE AÉREO	1.046.532,89	0,16%
52 ALMACENAMIENTO Y ACTIVIDADES ANEXAS AL TRANSPORTE	5.652.967,12	0,85%
53 ACTIVIDADES POSTALES Y DE CORREOS	140.165,63	0,02%
55 SERVICIOS DE ALOJAMIENTO	2.457.545,43	0,37%
56 SERVICIOS DE COMIDAS Y BEBIDAS	871.178,50	0,13%
58 EDICIÓN	910.608,30	0,14%
59 ACTIV. CINEMATOGRAF. DE VÍDEO Y PROGRA. DE TV, GRAB.	269.783,56	0,04%
60 ACTIVIDADES DE PROGRAMACIÓN Y EMISIÓN DE RADIO Y TEL	787.794,93	0,12%
61 TELECOMUNICACIONES	69.804.686,07	10,45%
62 PROGRAMACIÓN,CONSULTORÍA,OTRAS ACTIVIDADES RELAC.	274.103,55	0,04%
63 SERVICIOS DE INFORMACIÓN	40.557,03	0,01%
64 SERVICIOS FINANCIEROS,EXCEP.SEGUROS Y FONDOS PENSION	412.183.831,39	61,70%
65 SEGUROS,REASEGURO.FONDOS PENSION, EXCEPTO S.SOCIAL	1.401.521,17	0,21%
66 ACTIVIDADES AUXILIARES A LOS SERVICIOS FINANCIEROS	1.787.967,36	0,27%
68 ACTIVIDADES INMOBILIARIAS	4.400.896,29	0,66%
69 ACTIVIDADES JURÍDICAS Y DE CONTABILIDAD	1.509.462,80	0,23%
70 ACTV. SEDES CENTRALES; ACTIV. CONSULTORÍA DE GESTIÓN	868.954,64	0,13%
71 SERVICIOS TECNICOS ARQUITECTURA E INGENIERIA	1.049.367,63	0,16%
72 INVESTIGACIÓN Y DESARROLLO	14.447,38	0,00%
73 PUBLICIDAD Y ESTUDIOS DE MERCADO	479.367,92	0,07%
74 OTRAS ACTIV. PROFESIONALES, CIENTÍFICAS Y TÉCNICAS	310.111,40	0,05%
75 ACTIVIDADES VETERINARIAS		0,00%
77 ACTIVIDADES DE ALQUILER	162.326,80	0,02%
78 ACTIVIDADES RELACIONADAS CON EL EMPLEO	71.866,87	0,01%
79 ACTIVI. AGENCIAS VIAJE, OPERADOR TURÍST. RESERVAS	907.593,64	0,14%
80 ACTIVIDADES DE SEGURIDAD E INVESTIGACIÓN	547.915,02	0,08%
81 SERVICIOS A EDIFICIOS Y ACTIVIDADES DE JARDINERÍA	1.451.522,25	0,22%
82 ACTIVIDADES ADMINISTRATIVAS DE OFICINA	858.549,92	0,13%
84 ADMINISTRACIÓN PÚBLICA Y DEFENSA; SEGURIDAD SOCIAL	11.192,11	0,00%
85 EDUCACIÓN	27.004,83	0,00%
86 ACTIVIDADES SANITARIAS	178.561,99	0,03%
87 ASISTENCIA EN ESTABLECIMIENTOS RESIDENCIALES		0,00%
88 ACTIVIDADES DE SERVICIOS SOCIALES SIN ALOJAMIENTO	1.683,47	0,00%
90 ACTIVIDADES DE CREACIÓN, ARTÍSTICAS Y ESPECTÁCULOS	764,48	0,00%
91 ACTIV. DE BIBLIOTECAS, ARCHIVOS, MUSEOS Y OTRAS	2.212,02	0,00%
92 ACTIVIDADES DE JUEGOS DE AZAR Y APUESTAS	194.680,35	0,03%
93 ACTIVIDADES DEPORTIVAS, RECREATIVAS Y DE ENTRETENIM.	274.404,68	0,04%
94 ACTIVIDADES ASOCIATIVAS	115.810,39	0,02%
95 REPARACIÓN ORDENADORES, EFECTOS PERSONALES	17.927,96	0,00%
96 OTROS SERVICIOS PERSONALES	32.083,27	0,00%
97 ACTIVIDADES DE LOS HOGARES COMO EMPLEADORES		0,00%
98 ACTIV. HOGARES COMO PRODUC. BIENES Y SERV		0,00%
99 ACTIV. ORGANIZACIONES Y ORGANISMOS EXTRATERRITORIAL	0,60	0,00%
PERSONAS FÍSICAS (SIN SECTOR DE ACTIVIDAD)	1.716.299,07	0,26%
	668.010.514,05	