

## Spain, features of internationalisation

**March 2011**

# Key themes

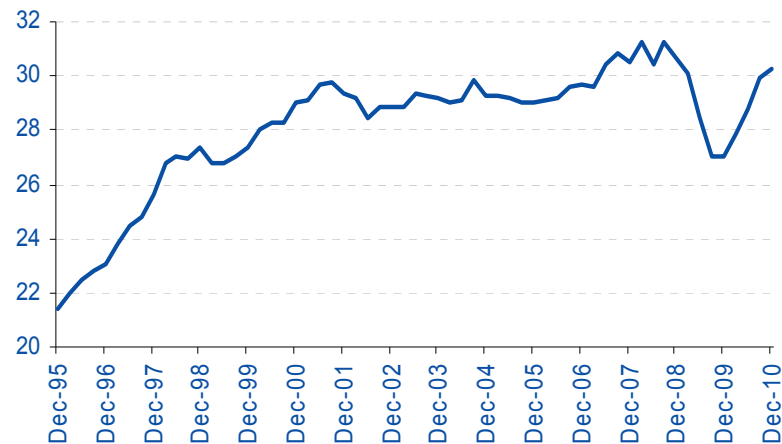
- **A puzzle regarding the performance of Spain's exports** dominates the economic debate. Difficulty in reconciling the evidence on the apparent loss of competitiveness of Spain's exports with the stability of its share in world exports markets.
- **Export expansion** has been supported by large corporations and SMEs. The former in the *intensive* margin, the latter in the *extensive* one.
- In line with international evidence, the share of firms engaged in goods exports is relatively small.
- In a number of variables, i.e. size, capital intensity, ratio of temporary employment, human capital, R&D intensity and productivity, **exporting firms outperform non-exporting firms**.
- The **importance of large corporations for international trade** is noticeable in the extent of concentration. Their performance is likely to hold the key to the stability of Spain's market share in world exports.
- **Small firms find it disproportionately difficult to survive** in export markets. Policy reforms are necessary to support them.
- **Geographic diversification, sectoral patterns, and a stronger position in FDI** will foster further internationalisation.

# A robust export growth

## That has supported economic activity

- Net export demand added 1pp to economic growth in 2010.
- After the trough of the 2008 crisis, the Spanish economy will return to a path of increased openness.

Spain: exports of goods and services (%GDP)



Source: BBVA Research based on INE

## A robust export growth

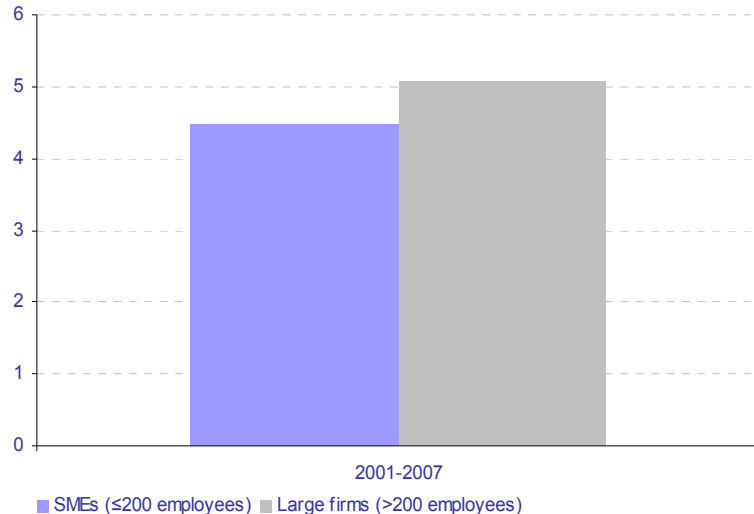
### Sustained by the process of internationalisation of Spanish firms

- The expansion of exports has been supported by both, large corporations and small-to-medium size enterprises (SMEs). The former contributed more via the *intensive margin*, i.e. increased average value exported by firm, while SMEs contributed more via the *extensive margin*, i.e. increasing number of firms engaged in exports.
- In line with international evidence, the share of firms engaged in goods exports is small (14%), and firm size appears to be a key determinant of export activity.

#### Export growth by firm size

Manufacturing sector, annual average, %

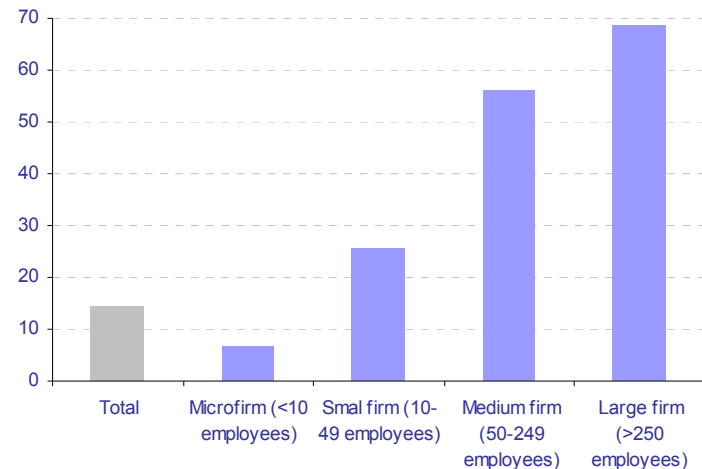
Source: BBVA Research based on Encuesta sobre Estrategias Empresariales (SEPI Foundation)



#### Share of firms engaged in exports and firm size

Merchandise trade, average 2001-2007, %

Source: BBVA Research based on Bank of Spain



Note: Merchandise trade includes Manufacturing, Agriculture, Mining, and Utilities.

## A robust export growth

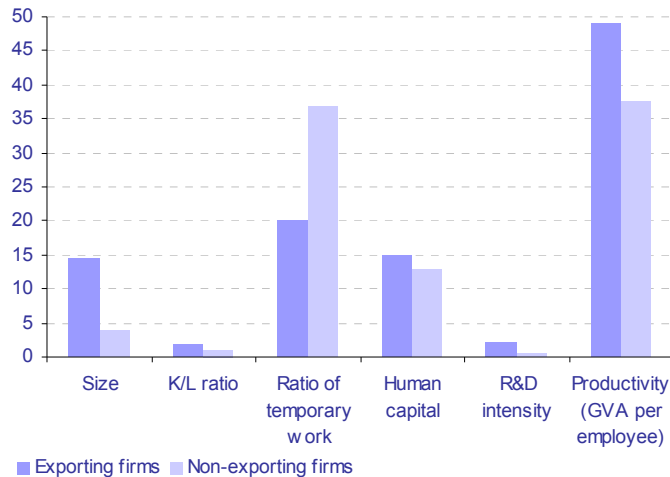
### Sustained by the process of internationalisation of Spanish firms

- Across a number of control variables, such as size, capital intensity, ratio of temporary employees, human capital, R&D intensity and productivity, exporting firms outperform non-exporting firms in both the overall merchandise trade sector or, more narrowly, on the whole of manufacturing.
- Productivity is 30% higher and the ratio of temporary work is 46% lower in exporting firms compared to non-exporting firms.

#### Main features of exporters and non-exporters

##### Merchandise trade, median, 2001-2007

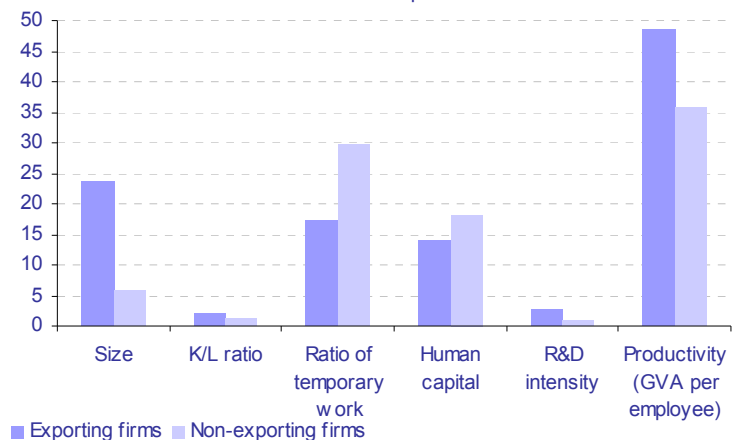
Source: BBVA Research based on Bank of Spain



#### Main features of exporters and non-exporters

##### Manufacturing, median, 2001-2007

Source: BBVA Research based on Bank of Spain



Note: Within manufacturing, the result on human capital is driven by the intensive use of relatively low-skilled workers in transportation material.

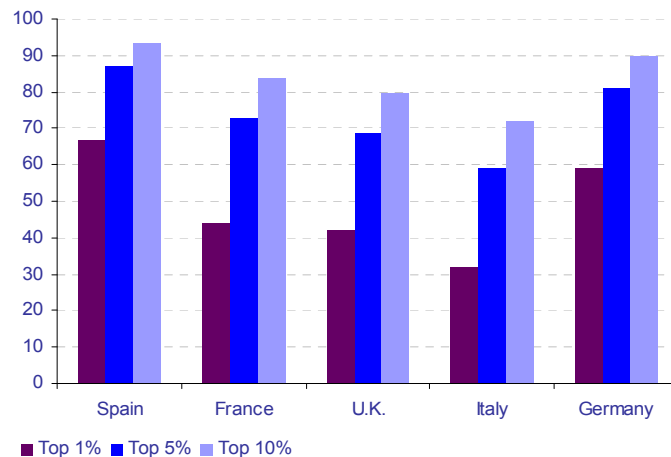
## A robust export growth

### Sustained by the process of internationalisation of Spanish firms

- Similar to observed international patterns, the importance of large corporations for international trade is noticeable in the extent of concentration, e.g. the top 10% of Spain's exporters account for more than 90% of manufacturing exports.
- The performance of large firms in export markets is likely to be behind the stability of Spain's market share in world exports during the last decade. A very important distinguishing feature among industrialised economies.

#### Export concentration in manufacturing (%)

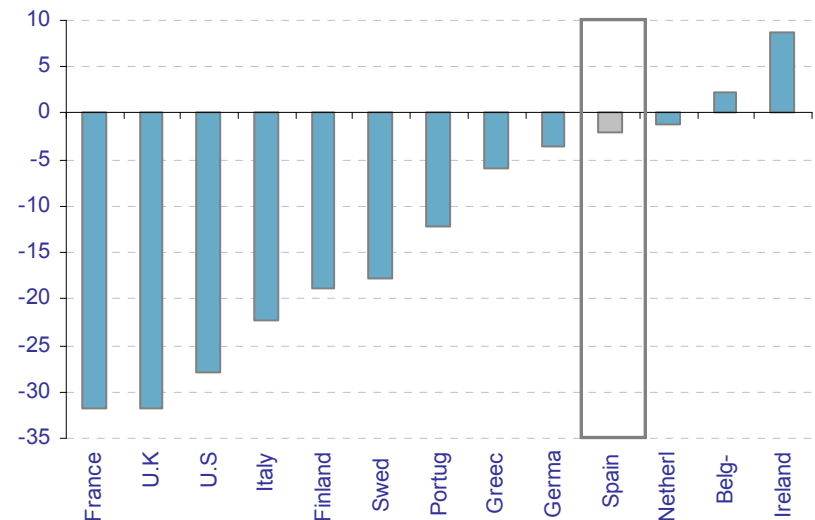
Source: BBVA Research based on Bank of Spain and Meyer and Ottaviano (2007)



Note: Germany, France, UK, and Italy data are for 2003; Spain data are for 2007

#### Share in world exports: goods and services Rate of change 1999-2009 (pp)

Source: BBVA Research based on WTO



## A robust export growth

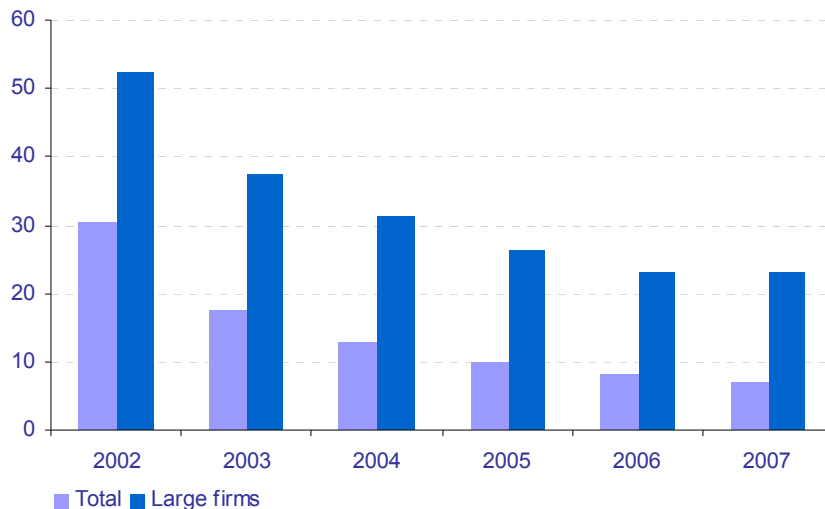
### Sustained by the process of internationalisation of Spanish firms

- Small firms find it disproportionately difficult to survive in export markets.
- Policy reforms are key to support the activities of firms engaged in trade. The associated beneficial effects on domestic efficiency are large.

#### Firm survival in export markets

2001 entry date and 6-year horizon, %

Source: BBVA Research based on Bank of Spain



#### Policy support effort

- Domestic product and labor market reform to encourage reallocation of resources to more efficient activities.
- Fostering the creation of international networks of exporting firms.
- Information and marketing activities abroad.

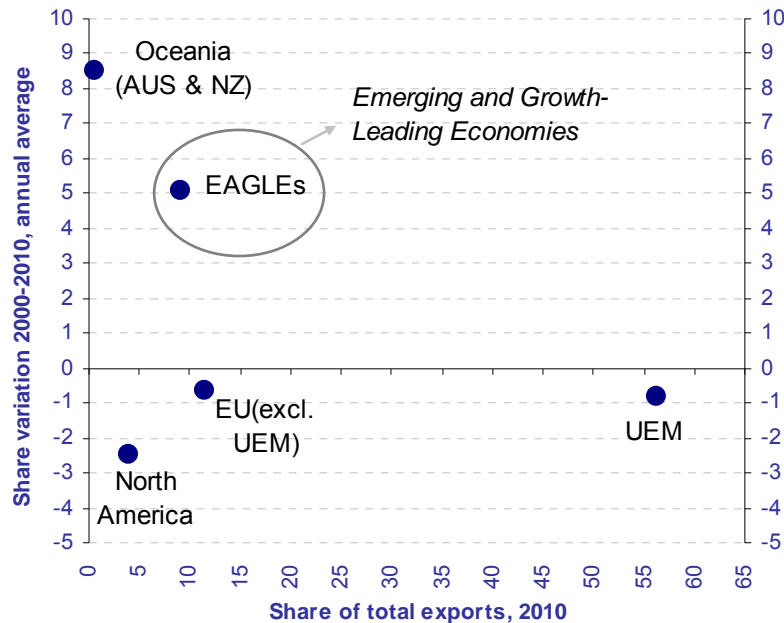
# A robust export growth

## Sustained by the process of internationalisation of Spanish firms

- Another important aspect has been that of geographic diversification. Future export growth will depend upon the choices regarding geographic destinations and quality-content, as emerging markets grow in wealth.

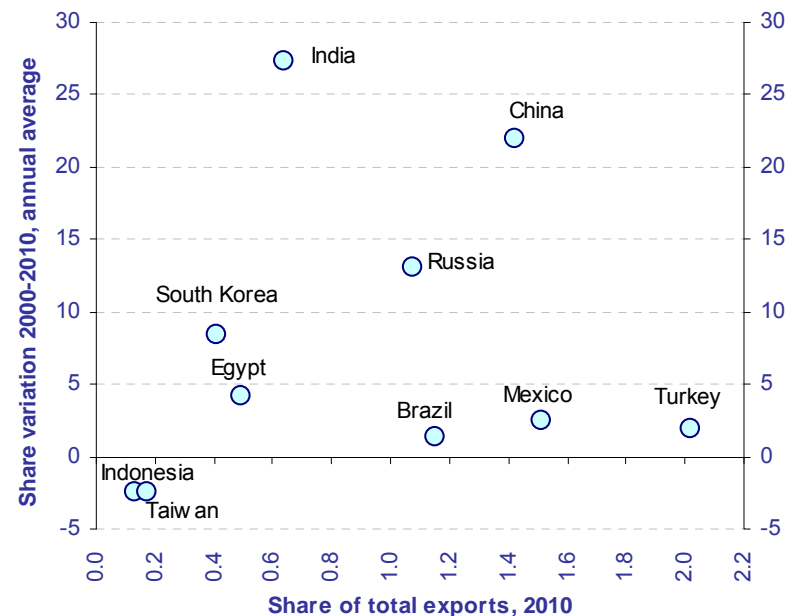
### Spain exports to major geographical areas Share in 2010 and share variation 2000-2010 (pp)

Source: BBVA Research based on Datacomex



### Spain exports to EAGLEs Share in 2010 and share variation 2000-2010 (pp)

Source: BBVA Research based on Datacomex





## A robust export growth With sectoral diversification in goods and services

- Starting from a good position to increase potential growth.
- Based on profitability, comparatively low debt ratios, and international openness, there are sectors capable of leading Spanish growth over the medium to long-term horizon.

	Indebtedness		Profitability		Real GVA	Exports
	Spain	Average (GER-FR-IT)	Spain	Average (GER-FR-IT)	Share in Spanish GVA	Share in Spanish Exports
Textile industry	51.8	54.6	4.0	4.2	0.7	2.9
Manufacture of chemicals and chemical products	54.3	47.2	5.5	5.9	1.7	8.9
Hotels and restaurants	56.2	58.8	8.9	4.0	7.3	14.5
Post and telecommunications*	62.6	57.4	19.7	14.2	4.0	0.5
Transport	42.2	51.9	7.4	2.4	5.6	5.7
Automobiles and transport equipment	63.6	53.1	0.7	0.2	2.2	14.7
Electricity, gas and water supply	51.2	42.7	14.7	8.7	3.7	0.6
Basic metals and fabricated metals	43.3	55.0	6.4	4.6	2.6	4.7
Manufacture of food products, beverages and tobacco	54.1	54.4	7.3	3.5	2.7	9.4
Manufacture of office, accounting and IT machinery	56.9	33.5	1.7	0.7	0.1	0.9
Manufacture of machinery and electrical apparatus	61.4	49.9	6.1	4.3	0.8	4.4
Computer programming, consultancy and related activities	57.5	49.5	6.0	5.4	7.1	9.2
Wholesale trade and commission trade, except of motor vehicles	61.5	62.8	3.2	2.4	4.1	
Retail trade, except of motor vehicles	57.3	62.7	4.5	2.0	6.4	
<b>TOTAL</b>					<b>49.0</b>	<b>76.4</b>

Indebtedness: Borrowings/total assets, annual average (2000-2007). Based on Bach database

Profitability: net profit/net revenue, annual average (2000-2007). Based on Bach database

\* Average (GER-IT)

Real GVA: based on INE data (sector GVA as % of GVA in 2008)

Exports: based on OECD and DATACOMEX data, 2008. Services represent 33.8% of total exports

## A stronger position in FDI

### Spain has transformed from net importer of capital to net exporter

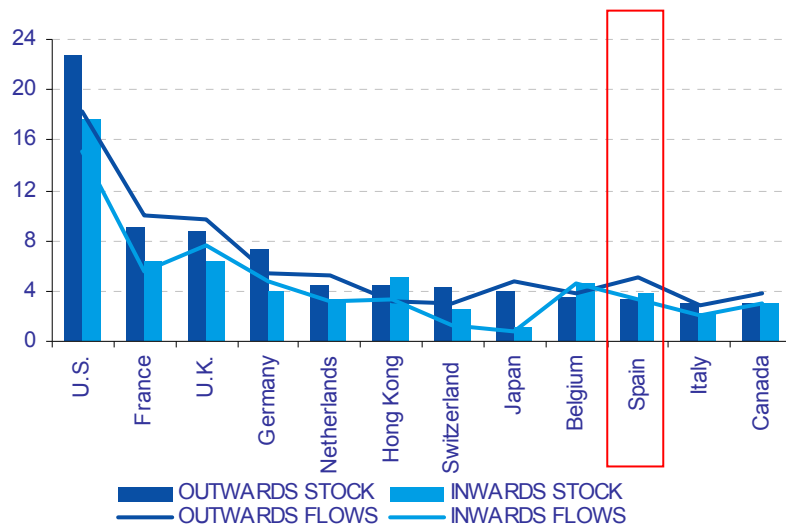
Although far from the US, Spain is not only an important FDI recipient country (3,4% of world flows) but has become in the last decade, a major investor abroad (5,0% of world flows). The effects of the increasing outwards flows have already been transferred to stocks, which in 2007, recorded a positive net capital position.

However, the current economic crisis has reduced Spain's FDI flows in both directions, though especially outwards. Thus, returning to a slightly negative capital position. Nevertheless, in 2009 Spain ranked as the 7th inward FDI holder and 3,4% of world FDI stocks was Spanish capital.

#### World: FDI stocks and net flows (% of world FDI)

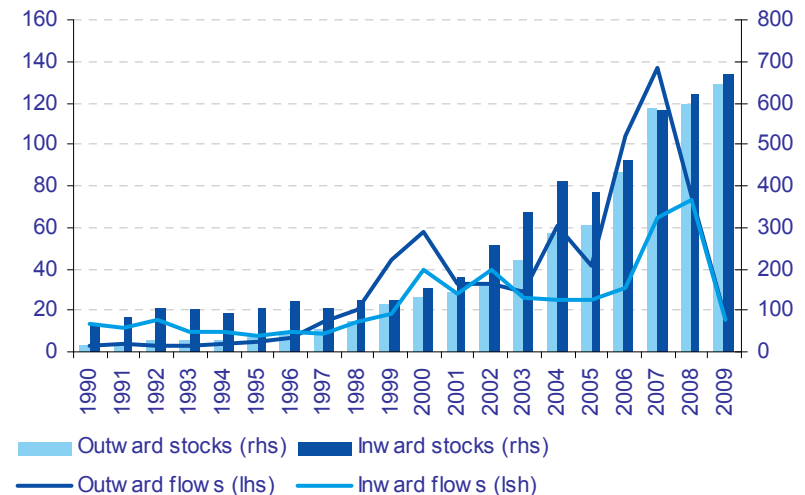
Stocks as of end 2009; Average flows 2000-2009

Source: BBVA Research based on UNCTAD data



#### Spain: FDI stocks and net flows (USD Thousand Million)

Source: BBVA Research



## A stronger position in FDI

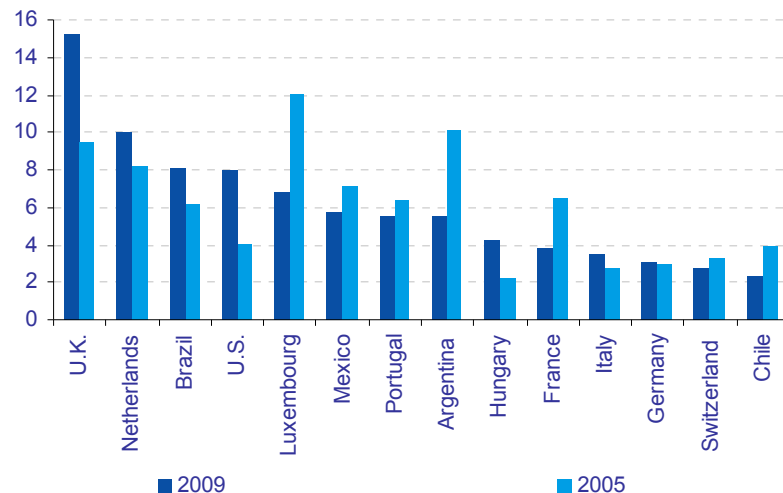
### Moving to new markets and new sectors

During the last years, Spain FDI abroad have been reoriented from South and Central America towards the Euro Area, the U.K. and North America. Other markets such as the so-called “EAGLES” have also increased their attractiveness for Spanish capital and in 2009 concentrated 15% of Spain’s FDI abroad.

Although the overall structure of FDI stocks abroad have not changed radically, the 2 major traditional sectors investing abroad (transport and communication and business activities) have been beaten by a growing financial sector, which is leading Spanish direct investments abroad in the last few years.

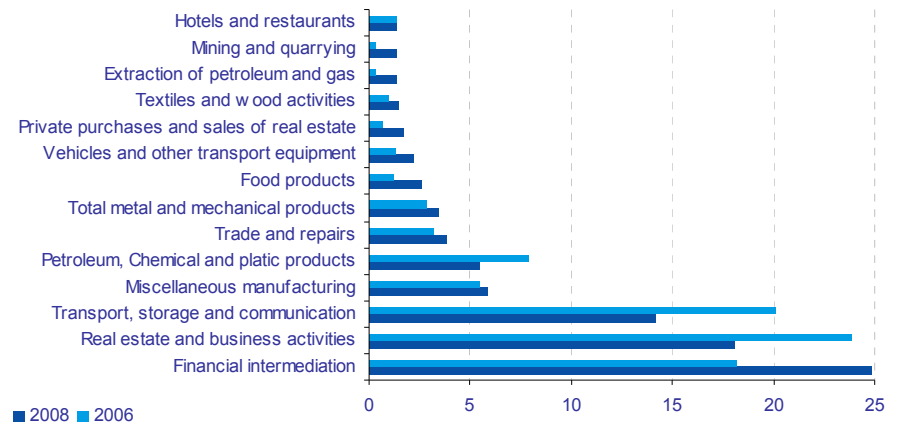
#### Spain: FDI stocks abroad, by major partner country (%)

Source: BBVA Research based on EUROSTAT data



#### Spain: FDI stocks abroad, by major investing sector (%)

Note: Business activities includes, among others, consultancy, accounting, engineering, architectural, advertising, computer and legal activities.  
Source: BBVA Research based on EUROSTAT data



## A stronger position in FDI

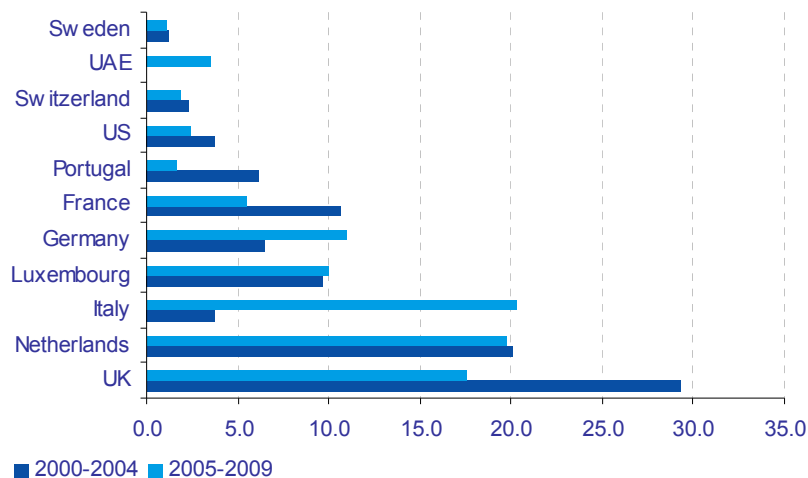
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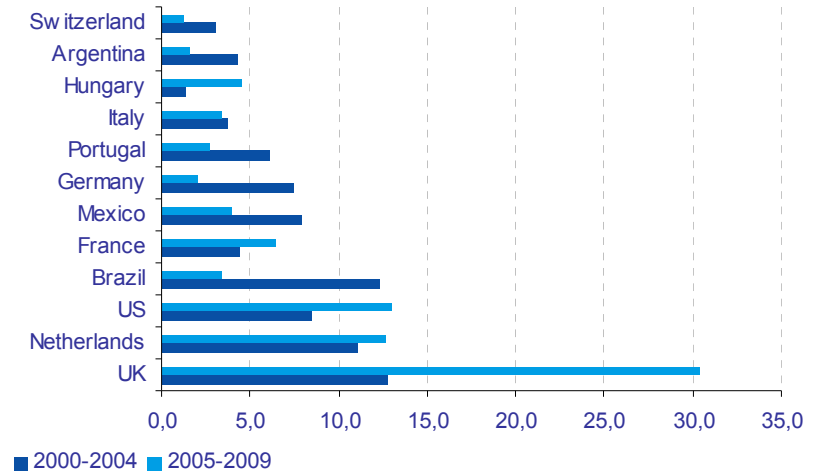
#### Spain: FDI gross inwards flows, by major partner country (%)

Source: BBVA Research based on DATAINVEST data



#### Spain: FDI gross outwards flows, by major partner country (%)

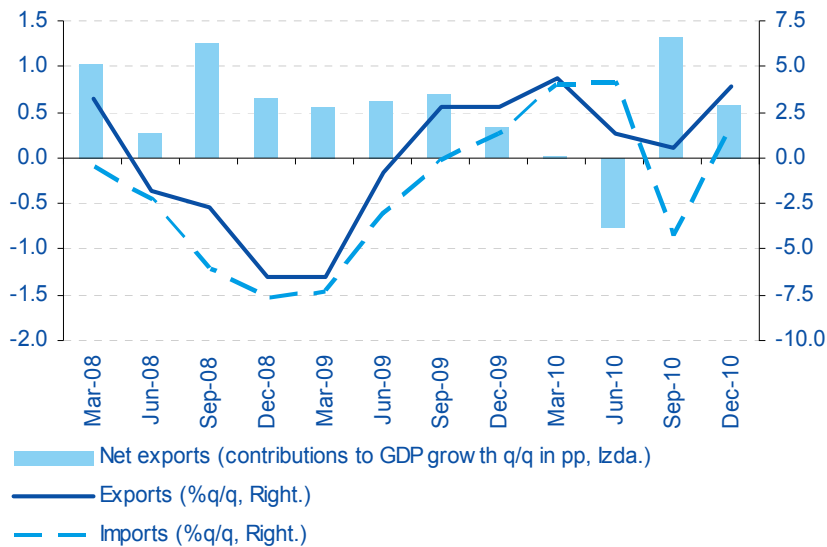
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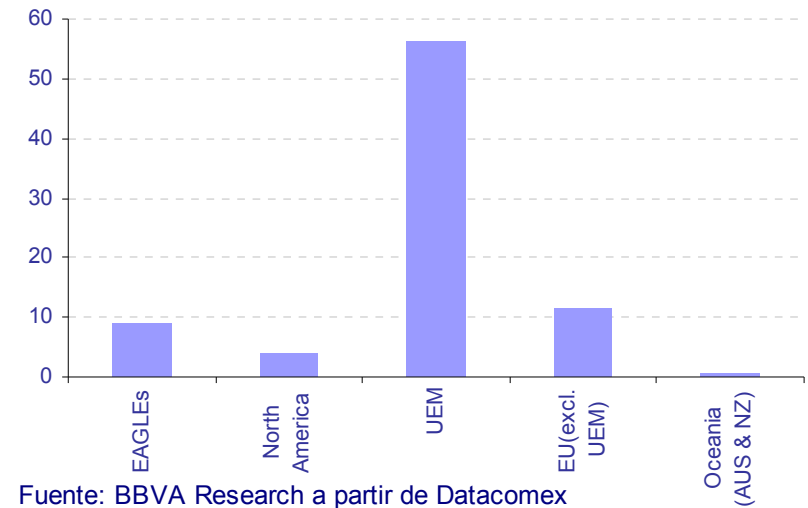
## Appendix

### Spain: exports and imports

Source: BBVA Research based on INE



### Share of exports by geographical area in 2010 (%)



Fuente: BBVA Research a partir de Datacomex