



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Spain

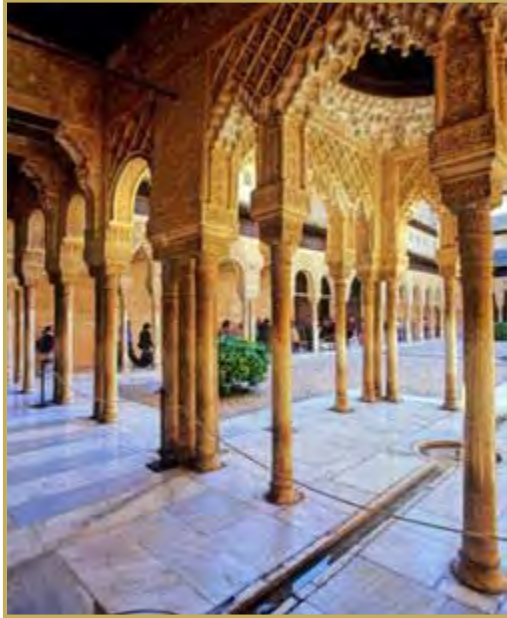
It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "James S. White, Jr." in a cursive script.

Spain: Re-emerging from a Fiery Past



The Alhambra is one of the symbols of Spain's confluence of cultures, harking back to its Moorish heritage. Muslims or the Moors, were settled in Spain for almost 700 years. Moorish culture has percolated and is visible even today in every aspect of Spanish life.

Rolling hills and warm beaches. Fruity wine and tangy food. Crumbling castles and glitzy cityscapes. Life becomes more than alive in this mild, temperate argot filled with passionate people and a vibrant, saucy culture. Spectacular ocean backdrops form three of its borders. Despite this, Spain boasts Europe's second highest altitude as a country, falling only next to Switzerland. Spaniards have always inspired a mix of exoticism and openness, a rapturous zest for life tinged with deliciously lazy siestas, of quixotic minds and pragmatic thinking, of fiery sauces and chocolate churros, heart-stopping bullfights and steamy salsa.

Varied legacies over time

Spain's childhood is filled with memories of different tribes marching in waves, one after the other. The first to come were the Iberians, then the Celts, followed by the Phoenicians, Greeks and the Carthaginians. The Phoenicians gave root to the name 'Spain' by first naming the Iberian Peninsula as 'Span', which meant hidden or remote land. Rome stepped in later and emerged victorious at the end of the Second Punic War waged from 218-201 BC. Rome left four powerful legacies for the future of Spain - the Latin language, Roman law, the municipality, and Christianity before its decline began in third century AD with the invasion of the Visigoths, a Germanic tribe. Christianity expanded further with the rule of the Goths who were soon weakened by constant warfare with the Franks and Basques. The Goths lost the battle with Muslim intruders from Africa in 711 AD, marking the beginning of Moorish rule. Architecture flourished during the Moorish reign as it took different shapes, veering away from imposing Roman columns to alluring curvatures of Moorish mosques and palaces. Although the Muslims were tolerant of their Christian subjects, perpetual unrest gradually sapped the Muslim

stronghold. By the 13th century, the only kingdom in Moorish possession was Granada, and the Reconquista or Reconquest of Spain from the Muslims was complete.

Religious zealots and new discoveries

In 1469, a marriage of great significance took place between Isabella of Castile and Ferdinand of Aragon, which not only united the two kingdoms but also pried loose the last fingers of Muslim hold over the land. Isabella, a staunch Catholic, embarked on a spiritual cleansing which included the expulsion of Jews and Muslims from the land. Isabella's aggressive campaign to spread Christianity sowed the seeds for the Spanish Inquisition of 1478, which brought so-called heretics to justice. The Spanish government, controlled by the monarchy, felt the need for a 'pure' Spanish-Christian race which led to the killing of many Jews and Muslims until the Inquisition was finally suppressed in the 19th century. Religious conquests were accompanied by geographical discoveries. In 1492, Isabella sponsored an expedition led by Christopher Columbus that spotted America. Columbus' discovery spurred a domino effect for Spain's future explorations and hegemony over much of the Caribbean, America and parts of Africa.

Spain and the World	
Nominal GDP	1.6 trillion
GDP Rank	9/191
Per Capita GNI	31,930
Per Capita GNI Rank	36/210
Population Rank	30/224
Geographical Area Rank	51/250
Global Competitiveness Rank	33/133
Economic Freedom Index Rank	36/179
Human Development Index Rank	15/182
Major Industries	Aerospace, Automotive, Agriculture, Textiles, Metals, Food Processing, Tourism, Environment Technology, Renewable Energy

A golden age vanquished

By the 16th century Spain entered the ‘Golden Age’ under the reign of Philip II, whose love of music, painting and architecture is etched in Spain’s rich artistic legacy. An outpouring of brilliance in the form of the novel, poetry and painting occurred during this time. The whimsical Don Quixote of Cervantes, a novel synonymous with Spain, had even become an eponymous part of the English language. But economically, Spain went bankrupt and undiplomatic handling of foreign policies ignited numerous wars. The disastrous defeat of the Great Spanish Armada by Britain in 1588 destroyed and vanquished the glory that Spain enjoyed.



Christopher Columbus prayed at the Altar of the Chapel of the Virgin to Our Lady of Miracles on the night before his historic voyage which led to the discovery of the “New World”. At the time, Christianity was fiercely promoted by Queen Isabella, and today 90% of the population is

Spain’s decline accelerated with this defeat. It was the Bourbons who elevated a Spain mellow from annihilation and charged with chaos into an amalgamated, stronger nation. The Age of Enlightenment came to Spain in the 18th century with the rule of Philip V, the first Spanish king of the French Bourbon dynasty. But soon Spain became the arena for the Napoleonic wars.

A turbulent path to modernity

Years later with Napoleon’s defeat, the throne was restored to Ferdinand II, but the King abolished the country’s liberal constitution. This ignited a long period of civil strife which dominated 19th century Spain. A change in the monarchy with the ascension of Alfonso XII in 1874 put an end to all the civil wars although there were occasional insurgences. The inchoate and destructive Spanish Civil War broke out in 1936 when General Francisco Franco’s army rose in revolt against the democratic Republican government. In 1939, Franco’s Nationalists emerged victorious after three years of intense fighting. Not until 1975, with the ascension of King Juan Carlos I, was the Bourbon monarchy reinstated and a new constitution forged. In 1982, the Socialist party came to power. By 1996, Spain had become a powerful entity in Europe and had become a member of various political entities, such as NATO and the European Economic Community (EEC). From 1996 to 2004, the Socialist party was sidelined as the conservative Partido Popular took over the center stage. But the balances tipped toward the Socialists once again, as the Party regained its foothold with the election of Jose Luis Rodriguez Zapatero in the 2004 and 2008 elections.

From scorching politics to zesty salsa

Flamboyance is the middle name of the amorous and peppy Spanish culture defined by flamenco and bullfights and siestas and *paella*¹. Its rich historic and artistic past is fraught with turbulent emotions etched in words, colors, sounds and movement. Diego Velasquez, Goya, Picasso and Dali introduced iconoclastic dimensions and subversive angles to the world of painting. Few would know that the guitar was invented in Spain in the 18th century and gained its modern form in the 1870s. Spanish musicians are known for producing passionate, sweat-drenched music and the humble guitar has reached its apogee in their hands. The ebullient yet seductive twangs of the flamenco swirl through the country accompanied by vigorous and colorful dancing. History has it that this local dance originated from the gypsies who roamed the mountains of Andalusia. Flamenco today exists in three forms - the '*cante*' or the song, the '*baile*' or the dance and the '*guitarra*' or the playing of the guitar.

Spain is not all just song and dance. Sports are a vital part of Spanish lives and bullfighting is a prized activity where a lusty crowd cheers on, unfazed by the blood and gore. Favored by royalties who chased the bulls on horseback, bullfighting began centuries ago, eventually changing into its more ritualistic form today. The Spanish cultural calendar is jam-packed with fiestas the year round and almost every town and village has its own festivals. The Mardi Gras and the Running of the Bulls in Pamplona attracts loads of tourists every year who join in the electrified, wine-soaked celebrations. A quirky crowd puller is La Tomatina, held towards the end of August in Valencia's Bunol every year. This weeklong festival is celebrated on the streets where sardine-packed crowds throw over-ripe tomatoes at each other accompanied by dancing, food and music.

Spaniards are passionate about their food and wine. Interspersed with the infamous two-hour siestas, are phenomenally popular gastronomic experiences that include relishing *tapas*² and *churros*³, drinking cups of coffee and *cava*⁴ and sampling rice dishes and *tortilla espanol*⁵.



About 50 million foreign tourists flock to Spanish shores and bullfight tickets are one of the crowd pullers. To the dismay of animal rights activists, an astonishing 40,000 bulls are slaughtered in Spanish rings every year and 20% of the bulls are drugged before they are brought into the ring.

Lagging behind the industrialized world

The civil unrest which continued from the 19th century into the early 20th century wielded a body blow to Spain's economy. While the rest of Europe was caught up in the Industrial Revolution, Spain lagged behind, embroiled in self-imposed political and social wars. The country's economy was jaded and tired compared to other brusque European countries, which leapt ahead with the establishment of new industries.

Spain's economy was predominately rural in the 19th and 20th centuries with wool being one of the country's main products. Agriculture was prominent and modern industry existed only in the textile mills of Catalonia and in the metallurgical plants of the Basque regions. Industrialization sped forward with the advent of World War One in most of Europe, but in Spain agricultural output superseded industrial production. The economy took a positive swerve during the 1920s



In the mid-18th century, the success of cotton farming led to a rise of the textile industry in Catalonia, although as a whole Spain failed to ride the wave of industrialization.

just after the war, during the reign of Miguel Primo de Rivera. Under the ruler, the government initiated various infrastructure projects such as the paving of highways and modernization of the railway systems. But all progress was suppressed with the beginning of the Spanish Civil War and the onset of the Great Depression in 1929.

Franco's whip batters the economy

The Civil War ended in 1939 but once again Spain's economy was torn apart by strife and starvation, a condition aggravated by the Second World War and the global shortage for food and raw materials that ensued. General Franco's regime was an autarchy which sought to provide for Spain's needs by adopting a policy of economic self-sufficiency. By the 1940s, Spain's economy had become worse than it was a decade earlier and its GDP was barely 40% of the average for other European countries. Spain's sigh of relief came in the 1950s after the country signed a mutual defense agreement with the

[U.S.](#) which poured \$1 billion into Spain's empty coffers. Inflation still continued to build up and the standard of living remained one of the lowest in Europe. An emerging middle class and a growing number of tourists created a hunger for higher nutritional standards, imported food and other amenities. Exports skid due to high domestic demand, and Spain racked up an external debt of \$60 million.

A galloping economy takes off

In the late 1950s, the ministry went through a complete re-haul and a lot of reforms were implemented, with the establishment of a corporate tax system chief among them. Gradually, Spain began to recover and even signed up for membership with various organizations including the OECD, the IMF and the World Bank. These bodies helped Spain emerge from its isolated rut of autarchical principles and trade practices which had depleted its reserves. In 1959, Spain unveiled the Stabilization Plan which resulted in a tremendous leap in foreign capital investment. This translated into a surplus of \$100 million in its foreign exchange bank balance with liberalization of foreign trade.

1960s was boom time, with the economic structure beginning to take on the lucid shape of a free market economy. Waving vast amounts of foreign currency in its hands, Spain entered a most progressive, albeit late, era of industrialization. The one million Spanish living abroad sent generous remittances driving the galloping economy. They are thought to have offset approximately 17.9% of the total trade deficit from 1962 to 1971. Tourism soared adding to the expanding treasure chests. Spain was receiving more than 20 million *turistas* by the end of the 60s which accounted for at least 9% of the GNP. Promoting a much needed air of optimism, the stabilization program had worked enough to absorb Spain's surplus labor, and fuel an investment in industry.

The tide turns in Spain's favor

The 70s was a turning point for Spain. Franco's iron fist over Spain loosened and his death in 1975 signaled the birth of modernity. But this was a rough decade with oil prices quadrupling, creating a dent in the economy, since Spain imported 70% of its energy. The oil crisis caused productivity to plummet and wages to shoot up with an increase in labor from agricultural areas. When the new Socialist government took over in 1982, the country was dangling on threads of hope. Policies for renovation were immediately introduced that fostered a remarkable turnaround for the Spanish economy. The 80s was a golden period with oil prices on the decline, a sharp rise in tourism, an easy flow of foreign investment, and a great reduction in the exchange value of the U.S. dollar.



Tourism accounts for 12% of Spain's GDP. Spain's annual tourist spending is over \$46 billion, which is topped only by the \$74 billion U.S. tourist industry.

A victorious warrior emerges

In the years between 1961 and 1973, the economy grew at 7% a year, elevating the country to the rank of developed nation as defined by the UN. Spain astounded economists and others with its phenomenal growth in the 80s. Although experiencing a brief trough in 1992, the country bounced back by 1996 with devaluations of the Spanish *peseta* making its exports more competitive. Within the European Union community, Spain openly endorsed the adoption of the Euro in 1999, which soon after made its debut in 2002.

Resembling a victorious warrior who has fought out a battle, Spain is today the tenth largest economy in the world and the fifth in the European Union. In 2006, the country exceeded the average EU GDP, ranking even above [Italy](#). Today, Spain prides itself on being the world's largest producer of olive oil and the owner of the largest vineyards in the world, although it ranks third in wine production.

Keystones of the economy

The importance of some of Spain's thriving sectors and those with a high growth potential cannot be undermined. By making positive contributions to employment and output, they could play a critical role in leading the Spanish economy out of the deep downturn.

The Spanish aerospace sector is one of the most developed in Europe, with tremendous potential that translated into an average growth of 12% during 1998-2007. The cornerstone of its remarkable success has been a huge investment in R & D, amounting to 14.4% of industry turnover. The aeronautics companies specialize in a wide gamut of areas, such as military transport, special mission aircraft, and low pressure turbines, and well as services like maintenance, repair and overhaul (MRO) activities, aircraft air-refueling, and air traffic management. A member of the European Space Agency (ESA), the Spanish aerospace industry plays an instrumental role in European aeronautics development as a whole, both civil as well as military.

Not far behind is the automotive sector, which contributes to 3.5% of the economy's GDP and employs 8.7% of the country's workforce. This sector also has significant external linkages, contributing to 20% of Spanish exports. The number of vehicles produced in Spain in 2008 totaled 2.54 million, with over 85% exported. The automotive parts and accessories sector exported about 58% of its turnover, and generated a sizable 208,766 workers. The Spanish

economy ranks third in Europe as the producer of passenger cars and first in the production of industrial vehicles. With a natural proclivity towards R & D, Spain has encouraged the development of several thriving automotive clusters as well as technological centers. The high levels of productivity and specialization of Spanish plants has made the country a leading producer of low and medium range vehicles.



Spain is the largest producer of olive oil in the world, with the cities of Madrid, Seville and Cordoba meeting 51% of the total global demand. In total, the country produced 1.2 million tons of olive oil in 2008. Interestingly, Spain's biggest customer is Italy, where the oil is repackaged and sold to other countries as Italian brands.

Other sectors which possess an immense potential for growth in Spain are biotechnology, the environmental sector and renewable energies. The Spanish biotechnology sector is an emerging industry, having experienced significant growth in the recent years. Between 2000 and 2006, the turnover for the Spanish biotechnology industry has grown phenomenally, by 200%.

Spain also excels in the environment sector, evidenced by its generation of €10.8 billion (\$12.88 billion) yearly on average, which is 1.2% of its GDP. Spanish expertise is recognized in waste and water treatment, ranking above most of its peers in Europe. As well, major multinationals in the construction and civil engineering sector are active users of environmental technology in Spain. The country has made significant forays in

the technological and industrial development of renewable energies. It is the third largest producer of wind energy and fourth largest producer of photovoltaic solar energy. The country is also among the leading producers of biogas and biomass in Europe. Spain is well endowed with natural resources, possessing the best solar radiation in Europe, as well as favorable climatic conditions for developing wind and sea energy. To harness these natural advantages, the economy has in place a favorable regulatory framework, with a subsidy system, R&D aid and other incentives to boost investment in the renewable energies sector.

As well, the Information and Communications Technology (ICT) sector has shown remarkable growth in recent times in the Spanish economy. The ICT market had a turnover of €101.3 billion (\$151.43 billion) in 2007, representing a 5.6% year-on-year increase. Constituting nearly half of the market, telecommunication is the predominant sector, followed by information technology, which is increasingly being adopted by national and regional governing bodies, and small and medium enterprises (SMEs) in the country.

Recessionary winds throw economy out of gear

Fueled by cheap credit, a construction and real estate sector-led boom bolstered the Spanish economy during 1997-2007. Clocking an annual average GDP growth of over 3.5% for a decade, Spain emerged as one of the fastest growing economies in the 16-member Euro-zone. The country created more than one-third of all Euro-zone jobs, absorbing millions of immigrants in the region. After witnessing 14 consecutive years of economic growth, the flourishing economy encountered a meltdown in its real estate sector. This was triggered by the global financial crisis that has gripped the global economy since the end of 2007.

Contracting by about 3.6% in 2009, the Spanish economy has been one of the hardest hit by the global financial crisis. While it narrowly managed to scrape out of the recession in the first quarter of 2010, recording a marginal growth of 0.1%, the economy is expected to remain on a weak footing for quite some time. While most of its peers in developed Europe are poised to clock an expansion in 2010, Spain might have to wait until 2011 for its growth to rebound. GDP is expected to decline by 0.3% in 2010 as the economy remains in the tight clasp of the downturn. Entering into recession since the latter half of 2008, the economy is now encountering its worst economic debacle in almost 50 years.

Further exacerbating matters is the country's spiraling unemployment rate, which has skyrocketed to over 19% by April 2010, more than twice the 8.1% jobless rate clocked in 2007. Sporting the highest levels of joblessness in the Euro-zone since the onset of the economic slowdown, it is indeed ironic that during the past decade, it was the Spanish economy that had been instrumental in creating jobs in this region.

High stimulus spending gives way to austerity measures as budget deficit spirals

In order to counter the economic crisis, Spain launched a stimulus amounting to about 2.3% of GDP, spread over 2008 and 2009. The measures incorporate tax incentives for companies to retain workers, and subsidies for new car purchases, as well as a program designed to shift resources away from Spain's construction industry towards other sectors. As expected, the increase in spending has caused the country's budget deficit to balloon to 11.2% of GDP in 2009, almost three times the levels recorded in 2008. As a part of a banking sector bailout, Spain pledged to buy €30 billion (\$44.84 billion) in assets issued by its banks and also promised a

guarantee up to €200 billion (\$298.99 billion) in bank debt. In addition, the Spanish government approved a bailout fund to help weak banks tide over the extended recession.

The surmounting budget deficit, which is expected to hover around 9.8% of GDP in 2010, has created concerns about economic stability, especially after the Greek debt crisis led to shivers among economies that remain straddled with high budget deficits in the Euro-zone. Accounting for about 12% of the Euro-zone economy, Spain remains one of the key players in the Euro-zone region. In a concerted attempt to tackle the economy's gaping deficit, the government has unveiled wide-ranging spending cuts to the tune of €15 billion (\$18 billion) over the next two years. These are the steepest deficit cuts Spain has experienced in the last 30 years and include reductions in civil service pay, social programs as well as pensions. As expected, these austerity measures have been met with widespread public unrest, including protests and strikes by workers' unions.

The government also plans to usher in labor market reforms aimed at modernizing the country's archaic labor laws that have been hampering competitiveness. The outlined measures afford private firms the flexibility to promote permanent part-time jobs, reduce the use of temporary contracts, and encourage the hiring of unskilled youths, as well as cut costs by shortening work hours. Through these proposed measures the government intends to bolster the languid economy and bring down unemployment from disconcerting levels.



An industrial park in Barcelona is a testimony to Spain's progress. But the ongoing economic slump is threatening to play spoilsport.

Work still to be done

The ongoing economic crisis has spurred some real challenges for the erstwhile booming Spanish economy. Consumer confidence and private consumption, once at their peak, are now waning. At the end of 14 years of vigor and vitality, Spain's economy is now sputtering out. Unemployment is skyrocketing while the soaring budget deficit is causing concern.

The sagging economy with its restrictive and frayed labor policies is crying out for a spruce up. Spain's competitive position in the global scenario will continue to inch down if a changing wave doesn't wash away the economic rubble.

Yet, Spain has a certain vulnerability encased within a steely spirit. In every facet of its life, the country has walked through fire and come out tempered and sharp. With a smile on its face, Spain warms millions of foreigners to its shores and slower paced life. The Spanish work to savor the music of life, with the chore of money-making taking a back seat to family, friends and fiestas. Once again, however, they must reach within a fiery soul to meet the challenges that await. 🌍

[1]: *Paella is a typical rice dish from Spain, made with seafood, meat and vegetables.*

[2]: *Snacks*

[3]: *Fried dough pastry based snack*

[4]: *Typical Spanish sparkling white or pink wine*

[5]: *Spanish omelet*

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