Strengthening of the Ibero-American Conference: Likely Impact on the Inter-American System and Canada’s influence in the Americas

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Executive Summary

This paper explores potential implications of the reinvigoration of the Ibero-American Conference for the Inter-American system and Canada’s projection in the region. A first observation that emerges from this exercise is that in order to get a complete picture of what recent developments may mean for Canada, it is necessary to look at both the Ibero-American Conference and Spanish policy in the region, given that the two are difficult to detach. Indeed, Spain is clearly the driving force behind the Ibero-American process, both politically and financially.

A second observation of this project is that despite remarkable differences there are many commonalities between Spanish and Canadian policies towards Latin America. With respect to the question of potential competition between the Ibero-American Conference and Summits of the Americas process, it is quite apparent that these are two very different creatures with disparate structures, scope and objectives. Yet, there already seem to be grounds for concern about possible diversion of funds away from the Organization of American States and in favour of the recently established General Secretariat of the Ibero-American Summits (SEGIB).

To conclude, the document provides recommendations on how Canada could or should position itself vis-à-vis these developments in order to preserve its influence in the region. Seeking closer political dialogue with the Spanish and Portuguese governments through bilateral consultations, and including Latin America and Ibero-American developments as part of the ongoing bilateral agenda, was favoured over the option of Canada pursuing observer status in the Ibero-American Conference.

1. Introduction

Well into 2006, there is little doubt left that the Inter-American picture is changing. Some trends that have become apparent in 2005-2006 include divided visions of the Hemisphere, a deepening of the shift to the left, a weakening of the Organization of American States, diminished interest in the Summits of the Americas process, and a simultaneous decrease in US influence and increased relevance of other political actors such as China and Spain. For its part, Canada has maintained its level of engagement although these trends threaten to eclipse actual influence.

Within these trends, a key development in 2005 was the strengthening of the Ibero-American Summits process by the creation of an Ibero-American General Secretariat (SEGIB). The SEGIB is seen as the cornerstone of the rebuilding of Spain’s policy towards Latin America.

The establishment of the SEGIB came at a challenging time for the inter-American system. The Organization of American States (OAS) is facing financial difficulties, hemispheric free trade negotiations have been suspended for nearly two years, and many countries are instead
seeking bilateral trade agreements with Europe. There is concern that the OAS could be further weakened by a shift of member states' preferences in favour of the Ibero-American Summits – a venue where they can work without the overbearing presence of the United States, without the complexities posed by the Anglo and Franco Caribbean States, without a strong focus (as advocated by Canada) on democracy and democratic institutions and with the inclusion of Cuba.

There is also the fear that the SEGIB could in time divert funding away from the OAS, whether from European donors or from Latin American contributors such as Mexico and Venezuela. In sum, recent developments are fuelling concerns that the OAS may be left with diminished clout in the hemisphere and fewer resources, at a critical time in the organization’s history.

Such a scenario would have direct implications for Canadian foreign policy in the region. Canada’s influence in the Americas is largely dependent on a well-functioning and influential inter-American system. Moreover, it seems likely that a financially and politically weakened OAS might further undermine the already troubled Summit of the Americas process. These are the only two significant regional fora in which Canada participates. An early understanding of the implications of changes to come will help the Canadian government better position itself vis-à-vis the OAS, the Ibero-American Summits and the region, in order to avoid being left out of the loop.

The purpose of this paper is then twofold. First, to explore the potential implications of the reinvigoration of the Ibero-American Conference, and of Spain’s Latin American policy, for the Inter-American system and Canada’s projection in the region. Second, to provide recommendations on how Canada could or should position itself vis-à-vis these challenges in order to preserve its influence in the region.

In order to address these two objectives, FOCAL identified three key themes: Spain’s policy and strategies towards Latin America, incentives and disincentives for countries to participate in the Ibero-American Conference and the Summits of the Americas; and Spanish investment in Latin America. It then commissioned research on these topics to three experts Carlos Malamud, Joaquin Roy and Pablo Toral, respectively. The resulting research was presented and discussed at a strategy session convened by FOCAL in January 2006. What follows are FOCAL’s findings and conclusions reached throughout the various activities of this project. Annexes 1, 2 and 3 of this paper summarize key elements of the commissioned research.²

2. Findings

Observation 1:

A first observation of this project is that in order to get a complete picture of what recent developments may mean for Canada, we need to look at both the Ibero-American Conference and Spanish policy in the region. While much is still undefined about the Ibero-American Conference and the SEGIB, including a political mandate for the latter, Spain’s policy appears focused and resolute. In fact, the two are difficult to detach, as Spain is clearly the driving

² The three full texts are available on Focal’s website www.focal.ca
force behind the Ibero-American process, both politically and financially. Indeed, for the
government of Rodriguez Zapatero, the 2005 Salamanca Summit and the creation of the
SEGIB were part and parcel of Spain's reengagement with Latin America, considered to have
been neglected by his predecessor in favour of closer links with the US.

A recent example of how Spain uses the Ibero-American Conference to project its own image
and foreign policy is the plan to create an International Spanish Corps of Volunteers to be
coordinated by Secretary General Enrique Iglesias and to be announced at the 2006 Ibero-
American Summit to take place in Montevideo. "Its goal is to be an across-the-board joint and
comprehensive effort to fight the big battle against underdevelopment."3 Such an initiative would
further Prime Minister Rodriguez Zapatero’s goal of substantially increasing Spain’s aid to Latin
America, which has gone from $400 million in 2004 to more than $600 million in 2005. "For this
year, aid in the region is scheduled to surpass $700 million," reported the Miami Herald4. Spanish plans are in sharp contrast to Canada’s recent “graduation” of most Latin American
countries from receiving ODA.

Observation 2:

A second observation of this project is that despite remarkable differences there are many
commonalities between Spanish and Canadian policies towards Latin America. Both Canada
and Spain share a tendency for a global vision of Latin America to prevail over bilateral
relations, and in both cases there seems to be lacking a real articulation of why the region
merits an active Canadian and Spanish policy (what are the strategic interests that Latin
America serves for Canada and Spain?). Economically, for both Canada and Spain investment
interests in Latin America are much greater that commercial ones. The two countries have also
tended to concentrate in similar sectors, particularly the extractive/resource sector,
telecommunications and financial services. In the short term, both Canada and Spain can
benefit from the window of opportunity created by the “shift to the left” and the so-called ‘neglect’
of the US and the EU.

Differences between Canadian and Spanish approaches to Latin America are probably more
striking, however. Unlike Canada, Spain’s foreign policy has traditionally defined relations with
the region as a priority. Broadly speaking, there is a consensus among the main political forces
about the importance of Latin America for Spain and for Spanish foreign policy. This consensus
extends to Parliament, the media and public opinion.
Another element in Spanish policy towards the region has been personal diplomacy at the
highest political level, which has manifested itself in repeated willingness of the Spanish
government to intervene in conflicts involving Latin American governments and Spanish
companies operating in the region.

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4 Idem.
Another difference is that development assistance and cooperation has been one of the pillars of Spanish policy towards the region. According to the Plan Director de la Cooperación Española (2005-2008), at least 40% of Spanish ODA will go to Latin America. The target are middle income countries, which is really most of Latin America, in contrast to Canada’s 2005 International Policy Statement which focuses aid on the poorest 4 countries.

Observation 3:
Regarding how Canada could and/or should position itself vis-à-vis these developments, one option that was explored during the strategy session was the possibility of Canada seeking observer status in the Ibero-American Conference. The prevailing view was that Canada should not pursue an observer status, for several reasons.

As a first consideration, it was thought to be prudent to wait for the SEGIB to define its objectives and priorities before Canada positions itself with respect to the Secretariat and the process at large. Any push for observer status at this stage may be viewed as rushed and not thoroughly thought out. Another consideration is the likely financial commitment that such a move would entail. Perhaps more compelling was the argument that Canada does not really need such a status to remain in the loop of Ibero-American developments, given the fluent and positive relations that the country enjoys with Secretary General Enrique Iglesias. However, Canada’s relationship with Mr. Iglesias can be considered a personal connection where as Canada usually prefers more formal institutional relationships.

In this regard, Canadian interests might be best served by seeking closer political dialogue with the Spanish and Portuguese governments though bilateral consultations. Latin America and Ibero-American developments could become part of the ongoing bilateral agenda, given shared concerns and priorities regarding the region. One issue that stands out in exploring joint approaches is Cuba’s transition, in light of the similar views on democracy and human rights as well as economic presence on the Island that Spain and Canada have. Indeed, Cuba’s post-Castro transition will undoubtedly be an issue of interest to the Ibero-American Conference. The fact that Spain is one of Cuba’s key trade and investment partners, the Island’s active engagement in the Ibero-American Conference and Cuba’s increasingly positive relations with Venezuela, Argentina, Uruguay and Brazil, make this a politically interesting environment in which Spain can play an active role towards Cuba. The institutionalization of the Ibero-American Conference through the creation of the SEGIB provides Spain with a multilateral entity that can be used to channel Spanish foreign policy towards the region, including to Cuba. At the same time, should a crisis break out on the island this entity could be used by Havana to isolate from negotiations countries that they believe don’t belong. By establishing a dialogue on Cuba with Spain in advance, Canada would be somewhat pre-empting this scenario.

Observation 4:

With respect to the question of potential competition between the Ibero-American Conference and Summits of the Americas process, it is quite apparent that these are two very different creatures with different structures, scopes and objectives. While there does not seem to be an
explicit purpose to compete with other organizations and processes, some Latin American members may use it to devise alliances that may indeed result in further Hemispheric divisions and antagonisms.

One of the differences between the two processes is the SEGIB’s pursuance of an international role. For example, the SEGIB has asked for an observer seat in the UN, similar to the European Commission. One of the ways in which the institutionalisation of the Ibero-American Conference could make the inter-American system potentially less relevant, is if a resolute SEGIB ventures into areas where the OAS has a record such as Haiti, conflict resolution, or poverty.

Another difference between the two processes is that, unlike the Ibero-American Conference, the Summits of the Americas offers a trade and investment dimension. Currently, trade relations with Latin America are carried out through the European Union. While the Ibero-American process does not seem to be headed for some kind of trade and investment regime, some in Spain are advocating for increased links between the Ibero-American Summits and the European-Latin Summit. Spain’s performance in the upcoming European-Latin Summit to take place in Vienna in May 2006, might provide some clues on the likelihood of such a move.

Of course, the prospects of closer ties with the EU that could advance trade negotiations (with Mercosur, for example) would be a significant added incentive for Latin American countries to become more engaged in the Ibero-American Conference. A shift in member states’ preferences in favour of the Ibero-American forum could further overshadow the inter–American system. Such a scenario could potentially undermine Canada’s influence in the region given the extent to which Canadian regional policy is conducted through the inter-American system.

Observation 5:

Already, there seem to be grounds for concern about possible diversion of funds away from the OAS and in favour of the SEGIB. For example, the Mexican government announced a US$4.8 million contribution to the SEGIB in February 2006, at the same time as it was blocking an increase in dues at the OAS. Mexican Foreign Minister Derbez promised an additional US$4 million to be disbursed during 2006 and called on the governments of Spain, Brazil, Argentina and Venezuela to match the Mexican contribution. Minister Derbez also advanced the possibility that the Energy Support Fund that is to deal with price fluctuations in Central America and the Caribbean be jointly administered by the SEGIB and the IADB, which would allow for the commitment of an additional US$600 million. The Mexicans appear concern that, regardless of realities, the OAS will continue to be perceived as a US-dominated institution because it is the

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majority funder. We suspect that this perception affects many Latin American countries, although there is not hard evidence to support it.

A common perception is that Enrique Iglesias would not have accepted the job of Secretary General if he had not been guaranteed funding for a significant profile for the SEGIB, since the SEGIB is his “legacy project” after a long and illustrious international career. One must assume that he will be assiduous in his fundraising activities bringing to bear all of the knowledge, contacts, and experience he has developed in his many decades of public life. For this reason, we would not be surprised if he were able to convince many European governments to divert their current discretionary funding to the OAS to the SEGIB, which has two EU member states playing a leading role, one that brings to the table 19 Latin American votes in international organizations.

3. Conclusions

There does not appear to be any reason for immediate concern on the part of Canada with respect to the ability of the Ibero-American Summits system and the SEGIB to replace the current inter-American system to which Canada belongs. The region remains fissiparous, and many countries continue to seek to balance the current shifts towards less democratic forms of populist governments with institutional relationships with Canada and the values it represents.

While Spain and Canada share many values, Spain also has colonial baggage that does not sit well with indigenous populations, and could affect the level of relations Spain could hope to have with the more heavily indigenous Latin American countries such as Peru, Bolivia and Guatemala. Moreover, with the possible exception of Nicaragua should the Sandinistas win the next presidential election, Mexico, Central America, the Dominican Republic, and Colombia continue to enjoy excellent relations with the United States, and seek free trade agreements with that country, either bilaterally or through a more limited FTAA. This will not change in the foreseeable future, and should militate for a continuation of the current balance between the inter-American system and the Ibero-American Summits process.

Currently, Canada has privileged access to the Secretary General of the SEGIB, together with solid bilateral relations with Spain, despite difficulties over fisheries issues. While Canada prefers institutional arrangements, ad hoc relationships in this case may be a best-case scenario while the Ibero-American system shakes itself out and begins to define its future. Ongoing relations between Ambassador Lortie and Secretary General Iglesias can produce excellent results, and the grafting of Latin American issues to the overall ongoing bilateral relationship with Spain can ensure Canadian concerns are taken into account and that Canada receives a privileged hearing without being at the table.

Finally, nothing can or will substitute for a renewed Canadian engagement with Latin America. Canada is in a unique position to enhance its friendly and productive relations with every member of the Latin American community, from the right to the most populist left, by engaging in creative relationships to balance support for macroeconomic and social change in the region.
with the need to strengthen democratic institutions. This will require not only a firm commitment from the diplomatic bureaucracy but also a reengagement by Canada’s political leadership.

Indeed, Latin America is the one region where Canadian foreign policy can be different from US policy yet contribute to a greater US understanding of Hemispheric dynamics – allowing Canada to differ from the superpower yet contribute to its well-being in the region. Spain likely sees this possibility as well: it is up to the Canadian government to see that Spain does not occupy this space at Canada’s expense.
Traditionally, relations with Latin America have been considered a high priority. This assessment has been based on the existence of an ‘Ibero-American’ community of interests (history, language, culture and even religion), which, in its most ambitious form, includes the Luso-Brazilian axis in an ‘Ibero-American Community of Nations’. More than once in the past 200 years of common history, Spanish foreign policy towards Latin America has been heavily Euro-centric, for example when policy was based on the concepts of ‘La Hispanidad’ (the Hispanic World) and ‘Cultura Hispánica’ (Hispanic Culture). Things began to change with the Spanish ‘transition’ to democracy, when repeated attempts were made, more or less successfully, to give the impression of egalitarian relations.

This was the basis for the consensus among Spanish political parties on the scope of Spain’s action in Latin America, and it was systematically accepted as state policy. In a similar way, when the media refer to the region (and often they simply fail to do so at all) they take a similar attitude. An uncritical consensus was established which simply accepted the existence of a community of interests, instead of encouraging in-depth discussion aimed at identifying Spain’s specific interests and goals in Latin America, and then tackling the deeper issue of why it is essential for Spain to be actively involved in the region. This consensus was shared by the both Popular Party (PP) and the Socialist Party (PSOE), as well as by other nationalist and regional parties.

The PP and PSOE electoral platforms reveal more similarities than differences, with both parties sharing a global vision of the region and of the general thrust of Spanish policy. This global vision is not, nor has ever been, exclusive to government policy; rather, it is shared by political parties, the media and academic circles.

Latin American policy as a global policy
As we can see, Spanish policy has tended to take a global view of Latin America, emphasizing a multilateral rather than a bilateral approach. This does not mean that bilateral relations have been nonexistent or have not been developed, but rather that, in an attempt to deal with the region as a whole, they have not been developed systematically. It has been deemed more important to have good, acceptable relations with the entire group than solid, stable links with the biggest countries in the region. However, given the interests that have been created, it has become very complicated under current circumstances to change this policy without causing resentment in the countries that would be negatively affected. The bilateral policies that have been developed follow the same pattern rather than taking into account the reality and diversity of each country. This is clear in the sixteen bilateral peace and cooperation treaties signed between 1988 and 1995. The same can be said of the strategic association agreements. The government has indicated the need to establish strategic associations with the biggest countries in the region and which have the greatest capacity for regional leadership: Brazil and Mexico, plus Argentina and Chile. All in all, the problem resides not in signing strategic associations, but rather in their specific content, and in the fact that if there are finally as many strategic
associations as Ibero-American countries, these associations will no longer be strategic. Strategic associations should not be with an entire region, but with specific countries.

In this paper, a global or comprehensive Latin America strategy refers to Spain’s policy of treating the region as a whole. It is a positive part of Spain’s foreign policy, which takes an interest in all of Latin America, not just in parts of it or in the biggest and most important countries, as is generally the case with most European Union (EU) member states. This global approach does not take into account the region’s diversity, although it has traditionally been well received by governments and by Latin American public opinion, and has strengthened Spain’s presence in Latin America in the past two decades. However, despite its value, this global bias could begin to have negative effects on bilateral relations with the countries in the region, especially if certain bilateral tensions intensify and it becomes necessary to take sides. What stance should Spain take in the conflict between Mexico and Venezuela, beyond offering its services to mediate in the crisis?

Both the consensus on Spanish foreign policy and the continuity of policy, above and beyond specific points of dispute, are based on the shared premise that Latin America is fundamental for Spanish foreign policy and Spain’s role in the world. It is unquestionable that Spain’s weight in the EU –and not only in the EU– largely depends on the Ibero-American component of its foreign policy. The two identities are not mutually exclusive; rather, they mutually support each other. Having European ties and a European identity strengthens Spain’s role in Latin America, while having Latin American ties and a Latin American identity strengthens Spain’s role in the EU. The tighter its ties with Ibero-America, the more Spain will be listened to in Brussels, in Washington and in multilateral organizations, starting with the UN.

Relations with Latin America are typically very dense, with autonomous communities and municipalities also participating. Since these relations are not limited to diplomacy or the economy, nearly all ‘Ibero-American’ associations have mechanisms for interaction and mutual exchange that strengthen Spain’s presence and global policy towards the region. However, in recent years there has been a clear lack of coordination between the MAEC and certain autonomous governments and municipalities. Efforts must be made to coordinate foreign action in Latin America and make it more efficient.

**Latin America as a priority**

The two main parties and their representatives in the country’s various national governments, in parliament and at other government levels, all insist that Latin America is a priority for Spain – perhaps even the top priority. Meanwhile, Spanish public opinion feels that Europe is the geographical and geopolitical area that is most important for Spain’s international relations. According to the Barometer of the Elcano Royal Institute (BRIE, December 2004), 46% of Spaniards feel that Europe is their top priority, while 66% feel that Europe is either their first or second priority. Latin America is in second place: 12% feel it is their top priority, while 41% consider it one of the top two.

Although Latin America apparently plays an essential role in the Spanish economy, its importance to Spain can be questioned from the perspective of foreign trade. While the sum of
imports and exports between Spain and Latin America totalled €13.78 billion in 2004, the total for Portugal was €21.00 billion. Spanish exports to Portugal accounted for 9.7% of total exports, while only 3.3% of all sales were to Latin America. On the import side the situation is a little better, with Latin America accounting for 3.6%, compared with Portugal's 3.3%. The figures speak for themselves and it would be easy to come to the conclusion that although Spanish economic interests in Latin America are important, they are minor compared to those in other regions, starting with Europe. However, Spanish investment proves the contrary, especially in terms of the importance of the region to big Spanish companies. Spain has invested more in Latin America over the last decade than any other country in the world except the United States. Spain accounted for €80.4 billion of the €161.7 billion total foreign direct investment (FDI) from the European Union in Latin America between 1992 and 2001, compared with €97.7 billion from the US. In 2001, Latin America received 20.97% of total Spanish FDI, while Portugal received only 2.37%; although this situation was reversed in 2003, when Latin America received 5.44% and Portugal received 8.98%.

The Latin American policy of the Rodríguez Zapatero government

The unexpected change of government in Spain in 2004, after the March 11 terrorist attacks on Madrid, made it at least theoretically possible for the new administration to work in harmony with the governments involved in the ‘shift to the left’ that came about (or could soon come about) in countries such as Brazil, Chile and Uruguay, and even with more populist governments, such as those in Argentina, Panama, Paraguay and Venezuela. This occurred when the controversy over the war in Iraq was at its height and there were many voices in the region critical of how the Aznar government had aligned itself with the Bush administration, although some circles backed the war or felt it was beneficial to both Latin American and Spanish interests. Greater harmony with left-leaning governments has not, however, prevented the existence of excellent relations with other governments further to the right. The relationship between Rodríguez Zapatero and President Uribe of Colombia is one of the best examples of this. The new Foreign Minister, Miguel Ángel Moratinos, has insisted on the need for a higher profile and a more intense policy in the region, although he has not done much to clarify what this means.

The participation of Cuba in the Ibero-American Summits is the subject of an interesting debate with two clearly opposed sides. First, there are those who see Cuba's presence as an indicator of the success of the summits as a special forum, different to the OAS (Organization of American States) or the Summits of the Americas, where the Castro dictatorship does not participate. The argument used since the early 1990s, when the summits began, is that they are encouraging a transition towards democracy in Cuba. However, in light of the fact that little, if any, progress has been made, excluding Cuba has become the preferred option. Nonetheless, this is impossible at present, given the opposition of Cuba itself, and also of Venezuela and Argentina, and sometimes of Mexico, Brazil and Uruguay. This could lead to the system’s breakdown and perhaps an eventual end to the summits. This is a risk that no Spanish government of any political stripe would be willing to run. Even the suggestion that Cuba should be expelled from the Ibero-American system would mean the system’s probable demise.

Cooperation and ODA have been traditional cornerstones of Spain’s Latin American policy and have been characterized by their global approach. The latest administrations, regardless of their political leaning, have questioned the use of national income as the basic criteria for cooperation development and have insisted on the need to tackle inequalities within the Latin American
republics themselves. Their intention, therefore, is to cooperate with the so-called middle-income countries that make up most of the region. So far, most of Spain’s ODA has been directed at the Andean nations and Central America, especially Nicaragua, Peru, Bolivia, Honduras and the Dominican Republic. The Master Plan for Spanish Cooperation (2005-08) includes a significant budget increase for 2005, with the promise of further increases in the following years. According to the government’s plans, the resources available for cooperation will double over four years. The Plan establishes that at least 40% of Spanish ODA will go to Latin America, thereby maintaining the priority the region has enjoyed in previous years. In 1998-2003, net Spanish ODA to Latin America took up 46% of available resources. However, there is still a long way to go in this respect, starting with the establishment of clear expenditure priorities. At present, over half the expenditure is concentrated in infrastructure and social services. As regards its nature, the proportion of multilateral to bilateral ODA in 2004 was of 44/56, with a significant increase in the multilateral component over the past few years. In the latter case, 58.2% is channelled through the EU, 35.4% through international financial bodies and the remaining 6.5% through non-financial international bodies. In 2004, 27.3% of bilateral cooperation was carried out through NGOs, with Spain being one of the OCDE countries that most channels its resources through these bodies.

The Latin America policy of the Rodríguez Zapatero government focused on preparing for the Ibero-American summit in Salamanca, an activity that was finally coordinated directly by Deputy Prime Minister Fernández de la Vega. However, the lack of consensus between the PP and the PSOE was most evident in the cases of Cuba and Venezuela. Regarding Cuba, Spain encouraged a change in the joint EU position, in light of the lack of specific results obtained by the policy of pressuring the Castro regime. Despite expectations, the search for channels through which to engage in dialogue with the Cuban government produced no concrete results either. While the Spanish government rightly argues that there have been no substantial changes in its Cuban policy (and let us not forget that Aznar invited Castro to Madrid’s Moncloa Palace), the PP insists that the Cuban opposition has been abandoned. The controversy over Venezuela broke out after the announcement of arms sales to the Chávez government (ships and planes), leading the PP to condemn alleged complicity with pro-Chavez groups. On this point, there is a conflict between the need to support the Spanish defence industry (a position defended by the Minister of Defence, José Bono) and the need to support Venezuelan democracy in its struggle against the populist tendencies of the Venezuelan government (a position defended by the PP).

In its section on Spain, the latest Latin Barometer sponsored by the Elcano Royal Institute reflects the broad public support for Prime Minister Rodriguez Zapatero in the region. This is due in large part to his order to withdraw Spanish troops from Iraq immediately upon taking office, in sharp contrast to former Prime Minister Aznar’s policy of tightening links with the United States. To some degree, Rodríguez Zapatero’s positive image is inversely related to Bush’s negative image. In any case, despite the form it sometimes took, Aznar’s policy remained within the traditional bounds of Spanish policy.

Relations between Spain and Canada –both of which are members of NATO– are currently satisfactory, having overcome the fishing crisis that broke out in the Atlantic fisheries 10 years ago. The good state of these relations is evident not only in the political field but also in the economic, scientific and cultural spheres. Nevertheless, beyond certain specific common
interests, such as opposition to the Helms-Burton law, relations as regards Latin America are still only superficial.

Finally, Canada deserves a special mention. Apart from making declarations, little has been done to achieve a greater coordination between the two countries, especially considering Canada’s participation in the OAS and Spain’s participation in the Ibero-American summits, as well as the close relations between the secretaries general of the two organizations, José Miguel Insulza and Enrique Iglesias. There is clearly room for greater policy coordination by the two countries, including the defence of democracy in the region. (Significantly, Canada was a driving force behind the OAS Democratic Charter.) Closer ties could also be developed around the issue of Cuba and what attitude to take in an eventual transition to democracy in the country. Both countries are present in Cuba and have taken a similar stance regarding the Castro dictatorship, consisting of supporting democratisation and human rights.

The Ibero-American summits
The global approach taken by all democratic Spanish governments has been supported by the principle that Spain is a member of the Ibero-American Community of Nations, a supranational group theoretically made up of fraternal, equal nations with a shared culture, history and languages (Spanish and Portuguese). This was most clearly expressed in 1990 when, in the context of the 500th anniversary of the discovery of the Americas, Spain and Mexico made the joint decision to develop the Ibero-American Summits System, an initiative that Brazil later joined. The intention was to correct the asymmetry in diplomatic and cultural relations characterized during the Franco regime by the concepts of ‘Hispanidad’ (the Hispanic World) and ‘Madre Patria’ (Mother Country). However, the imbalance remained as Spain took on a leading role in the Ibero-American Community. The Ibero-American summits are an essential part of Spain’s policy towards Latin America.

The creation of the SEGIB has led to debate on the system’s content. What is the purpose of the SEGIB? What issues can or should be discussed? To what extent will the approved regulations (very different to the original version) actually limit the work that gets done, since much of the original content has been removed? Should the summits be a space for reaching agreements, for cooperation or for integration? Having resolved the issue of who should be the first Secretary General (Enrique Iglesias is a Uruguayan born in Asturias, Spain), the question remains as to the political responsibilities of the Secretariat, which is defined as the voice of Ibero-America in multilateral bodies, despite the existing limitations that prevent it from going beyond the status quo. In any case, the SEGIB’s first year will be crucial and we shall see how broadly Iglesias interprets his scope for action, as well as the roadblocks that might be set up by the Ibero-American governments to which the SEGIB is responsible.

Therefore, a number of significant questions remain unanswered: will the Summits and the SEGIB make it possible to achieve greater political consensus among Ibero-American countries, as the Spanish government desires? Will it remain within the bounds of the politically correct, touching on issues that any government, regardless of its political stripe, can deal with, such as social inequality, poverty, hunger in the region and education? Or will it move on to more sensitive issues such as the existence of authoritarian practices, the emergence of populist agendas or a deeper discussion of the merits of participative and representative democracy?
However, the deeper question remains: are the summits merely an instrument of Spanish policy or, on the contrary, is Spain's leading role the result of its position, similar to the role of the United States in the OAS? Whatever the answer may be, the summits will only be useful to Spain –paradoxical though it may seem– if Latin American countries (especially the biggest ones) adopt them as their own. If, on the contrary, they continue to be seen as simply an instrument of Spanish policy, they will have little scope for action beyond the SEGIB and the annual meetings. For this reason, Spain's contribution of 80% of the payments made to SECIB (US$2,300,000 in 2005) is a precedent that should be a cause for concern. Financing the SEGIB and its administrative structure is the key to the future of the summit system. Another cause for concern in terms of the system's functioning is the progressively decreasing returns from the preparatory ministerial meetings.

Salamanca was in many ways positive for the organization of the summits and if these positive aspects can be maintained in the future it would be a step in the right direction. One concern of the Spanish government was to reduce the harsh rhetoric. To do so, the final declaration was shortened considerably and the three plenary sessions of the Heads of State and Government leaders were held behind closed doors. This format favoured open discussion among the leaders and made it possible to deal with issues that otherwise could not have been tackled. Two meetings, one of business people and the other of 'civil society' representatives, preceded the summit. The meetings were aimed at diversifying the issues being dealt with, rather than at strictly adhering to the government agendas, making it possible for these groups to present specific proposals. However, media coverage focused on the final declaration and the points that referred to the ‘blockade/embargo’ of Cuba and to the request for the extradition from the United States of accused Cuban terrorist Posada Carriles.

Spain, the EU and Latin America
Spain is generally considered a bridge between Europe and Latin America, though it is clear that on numerous occasions, Europe has served more to excuse Spain from taking action than to spur on the country’s Latin American policy. This has happened frequently, for example on issues such as agricultural protectionism, the CAP (Common Agricultural Policy) and immigration, and could also occur with the new weight of eastern Europe in the 25-member EU: instead of taking positions that support Latin American proposals, Spain often takes refuge in the rigidity of EU standards and in the difficulty involved in changing them. Lately, European concerns have focused on the enlargement to 25 members, how this will affect EU-Latin American relations, and whether or not Spain can continue to defend Latin American interests as it has in the past. To give top priority to Latin America in the 25-member EU, it would be necessary to strengthen Spain’s cooperation with Portugal in this area.

The EU-LAC (Latin America and the Caribbean) summit to be held next May in Vienna and the negotiations with Mercosur (mostly with the Andean Community of Nations [CAN] and with Central America) clearly reveal Latin America's secondary role in the EU scheme of things. Work prior to the next summit is considerably behind schedule and the agenda is still unclear. Then there is the overlap between the Ibero-American summits and the EU-LAC summits, which should lead to the consideration of coordinating the agendas of the two events.

Spain should play a more active role in European policy towards Latin America. This implies in some way adding Spanish content to the EU agenda for the region, while Europeanising the
Spanish agenda. The change in the common policy towards Cuba proves the leadership capacity that Spain can have in this area, as well as the fact that countries such as Germany and the United Kingdom can accept this without great difficulty. But in order for other EU members to see Spain as a country of reference in this area, Spain’s Latin America policy must once again become a state policy, free of the uncertainties and shifts that come with each change of government.

Conclusions
Latin America is important to Spain for many reasons, regardless of whether or not it is the top foreign policy priority. In this regard, Spain’s acceptance of its double (European and Ibero-American) identity has enabled it in recent years to increase its profile and influence, not only in Europe and Latin America, but also in other parts of the world. The importance of Spanish investment in the region is a new addition to the traditional values of history, culture, language and religion, which have governed relations over the past two centuries. In very few years Spain has become the second largest investor in the region and in some countries, such as Argentina, it is the biggest, making Spain the main non-American player in Latin America. Added to this is the growing importance of language, which is increasingly revealing itself to be both of cultural and economic value.

Spanish foreign direct investment is concentrated in only a few countries (mainly Brazil, Mexico, Chile and Argentina, but also Peru, Colombia and Venezuela), but the global bias of Spain’s Latin American policy has led to equal treatment for all the countries in the region. It comes down to the difference between the behaviour of companies, which prioritise, and the government, which does not. This increases the lack of coordination between the public and private sectors, although the Observatorio Empresarial de América Latina (Latin American Business Observatory), a recent initiative from the Prime Minister’s Office, is tending to correct this situation.

The lack of resources available to Spanish diplomacy limits its scope of action, though what action is taken tends to be amplified by the reception that Spain receives in most countries in the region. Spain’s political will to be present in Latin America is compatible with the EU’s common foreign policy, which in certain circumstances sets limits on Spain’s actions. However, Spain should take the initiative to lead European policy as a whole in the region. Coordination with the United States is also important, especially at such a turbulent time in Latin American politics, when there is a renewed threat of populism and bilateral tensions are on the rise in most countries in the region. At the same time, relations with Canada should be strengthened, since there is ample scope for more coordinated action on the part of both countries, not only within multilateral bodies, but also in certain countries in the region.
Annex 2. Prospects for The Ibero-American Summits Process

Since its foundation (or its re-foundation, if one considers that the Ibero-American Community has existed for centuries) in 1991, much has happened in this family. In October 2005 in Salamanca a new chapter was opened towards a crucial stage that should be the key for the success or failure of the cycle inaugurated in Guadalajara, Mexico. Media records and other literature distinctly show that at the time the label floated by the official discourse emanating from Madrid was the “Community of Ibero-American Nations”. This is an impressive and ambitious concept that has been inexorably demoted from the official declarations, only to be used figuratively referring to the overall historically-link group, and with certain stylistic rhetoric. Coinciding with the crafting of the “European Economic Space”, the pre-enlargement of the EU that was to convert it from an entity of 12 to 25 in 2004, the expression “Ibero-American Space:” began to be used in official literature, permeating the scholarly analysis. Then the word “Conference” was also used to describe the different configurations of ministerial gatherings and other gatherings. Finally the rather mundane and abused term “summit” captured the official public seal, although it only legally describes the annual high meeting of the presidents of Latin America, Spain and Portugal (with these two countries doubly represented by the heads of state and government).

In sum, what is popularly known as the “Ibero-American Summit” is just an annual meeting of heads of state and government, lasting only two days. What remains afterwards when everyone goes home is the Ibero-American Conference, structured in the summit itself, the meetings of ministers of Foreign Affairs, the national coordinators of each country, and the administrators of development aid programs. The “armed branch” is then the Ibero-American General Secretariat (SEGIB). Consequently, the Conference is a structure that works for the service of the Ibero-American Community, composed of 19 Latin American countries, and the three European states (Spain, Portugal and Andorra). For lack of a comprehensive treaty, experts have suggested that the Ibero-American system has been composed of two “high level structures” (the summits of the Heads of States and Government, and the meetings of Ministers of Foreign Affairs), three “continuity” structures (Pro Tempore Secretariat, Troika, Extended Troika), “management structures” (national coordinators, cooperation officers, joint meetings), “permanent organs” (the Ibero-American Cooperation Secretariat to be succeeded by the Ibero-American General Secretariat) and “Conference Forums” (ministerial meetings, cooperation programs).

In this context, the moment of truth had arrived with the preparations of the summit to be held in the emblematic Castilian town of Salamanca on October 14-15, 2005. Taking into account that the event would also serve as a fitting scenario for the inauguration of the institutionalization process with the addition of the General Secretariat with its site located in Madrid, the Spanish government had much at stake and was not going to leave any stone unturned. During the months preceding the summit, several high-profile officials canvassed the Latin American capitals taking tally of each and all of the presidents committed to attend the Salamanca gathering. Vice President María Teresa Fernández de la Vega (who presided the Commission

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*This section represents a summary of the research paper commissioned to Joaquin Roy, Director of the European Union Center at the University of Miami. The full article is available on FOCAL’s website.*
to oversee the preparations of the summit) visited several key Latin American capitals in key sub regions and conducted personal interviews with presidents to guarantee the promise of a full house for the summit. However, final attendance had some casualties, most of them justified for natural disasters emergencies affecting Central America (El Salvador, Nicaragua, Guatemala) and political crisis looming over Ecuador. The final no-show of Fidel Castro was in a way a blessing in disguise, because it relieved the organizers from the pressure to stand customary demonstrations against him and the expected protagonist role to take. However, the pattern of absences in previous summits confirmed that in the calculations of the Cuban leader, the risks of confrontation and demands of extradition presented in Spanish courts did not match the expected advantages.

Prospects

Most observers in Latin America (and in Spain, too) agree that Enrique Iglesias has a golden opportunity within his reach to culminate his brilliant career. To this end, he would have to enjoy the blessing and active cooperation (as it they were citizens of a “civic nation”) of his superiors in this enterprise, the key leaders of the Ibero-American group. The problem is that one can expect that a state consensus in Spain regarding the Ibero-American project can be rebuilt with at least a not very confrontational attitude of the Partido Popular. However, this dimension of foreign policy that was the subject of a national consensus between the two main political formations has been recently shattered after the defeat of the PP in the March 2004 elections. While political confrontations in Latin America and Portugal over the Ibero-American project are not the norm, inertia and lukewarm enthusiasm that disappear after the summits are the main negative obstacles.

In the meanwhile, some positive signals are to be taken into consideration. They may greatly contribute to the final success of the operation of the reborn “Community” (a label that deserves to be unearthed and brought to the forefront). They also are key factors for the basic cohesion that still exists among the countries that share the Spanish and Portuguese languages.

A mild correction in the ambivalent Portuguese attitude towards the process has been detected. Portugal has been aware of its limited capacity in Latin America (even in Brazil). Since the times of the political transition and most especially since the moment that along with Spain, Portugal became a member of the European Union, Lisbon has been very careful not to increase the dependency on Spanish investment and the overpowering presence of its big neighbor. Respectful and willing to appear cooperative, Portuguese leaders appeared to accept the Ibero-American project with unpretentious enthusiasm without showing any resistance. Priming its European presence and the advantageous alliance with the United States, Africa had taken precedence over Latin America. Portugal is not a point of reference in Brazil, or at least not in the way as Spain is in most of Latin America. But then Portugal has to take for granted the existence of an “Ibero-American cultural nation”, but it still needs to register that it is in its interest to belong to a “civil Ibero-American bloc” that delivers benefits.

Reinforcing the cultural links that make the backbone of the project, the decision taken by Brazil to make the Spanish language compulsory in schools has presented a challenge to Spain to provide part of the necessary teaching resources. This move would also constitute an incentive for the neighbors to learn Portuguese, a pending matter that is also evident in Spain regarding the poor command of Portuguese shown by Spaniards.
Another timely advantage is that all this is happening while Spain has been promoting the project for an “Alliance of Civilizations”, an idea originally presented by Spain’s Prime Minister Rodríguez Zapatero at the United Nations General Assembly last fall. It was endorsed by Secretary General Kofi Annan, and was backed by the government of Turkey, co-presiding the initiative with Spain. The Ibero-American Community is an alliance formed by countries born as a result of a bloody clash of civilizations emanating from 1492. Spain and Portugal themselves are among the most mixed communities in the world, the product of invasions, migrations, internal wars and racial cleansing and interacting, some of the trends that were exported to the Americas by conquistadors and emigrants. Ibero-America has now a unique opportunity to act in unison in an atmosphere of diversity.

Meanwhile, the United States, an unavoidable partner in the continent where most of the urgent actions of the Ibero-American community are to be implemented, is facing troubles of leadership regarding the adventure of the war and occupation of Iraq, and the fight against terrorism. Having the Ibero-American group on board in a common program of social development and economic progress, may give Washington a needed respite and an opportunity to accept the loyalty of the Iberian members. Alliances with traditional allies are a much better policy than ad-hoc deals with adversaries.

However, the most impressive asset that the Ibero-American system has to become a success is the double added value provided by what is called in contemporary terms “civil society” and a new aggressive presence of Spanish business interest implanted in Latin America. Used and abused by rhetoric, the human dimension linking Iberia and Latin America is the lasting legacy not of the colonial official control, but generated by anonymous migration. Experts have called this special dimension linking Spain (and Portugal) and Latin America a “subterranean” relationship. There is not a region of Spain, nor a family that does not have a recent or distant experience of a family member migrating to one Latin American country, forced by hunger, lack of opportunities, political repression and exile. This makes the Spanish experience of America not a foreign adventure but a feeling of being “at home”.

This sense of belonging and of making normally risky operations a natural bet that deserves to be tested is what is behind, besides objective financial and economic records, the spectacular strong landing of Spanish investment in Latin America in the 90s, still going in force today. Memory, customs and language are not enough arguments to justify important trade and investment operations, but they help in endorsing business calculations and financial prospects.

How this investment dimension might be inserted in the framework of the Ibero-American summits is open to speculation. What has been until now a bilateral strategy led by some key sectors of the Spanish economy has the potential of receiving considerable reinforcement especially is some of the policies and programs to be implemented under the umbrella of the Ibero-American system receive substantial attention and resources. For example, the plan to barter debt for educational programs may propel the impressive cultural industry of Spain to make an aggressive move in Latin America where it already enjoys an advantageous base.

In any event, no matter what is the overall strategy, Spanish interests are not free from any of the threats and challenges current looming over the Latin American landscape and the overall inter-American scene. Let’s keep in mind that Spanish investment has been the target of double
harassment emanating from U.S. and Latin American sources. Competition in a region that until very recently has been considered as a monopoly of U.S. companies has not received any sign of welcome. Spanish aggressive operations in the field of communications, banking and energy have caught U.S. interests flatfooted. Moreover, in Latin America, Spanish presence has been identified first with conquistadors, missionaries, and colonial administrators. After independence, immigrants, political refugees, and religious representatives traditionally represented Spain. They were, respectively, filling some needed spots in the society, without constituting a threat to the system that just a few (some leftist individuals and practitioners of the Theology of Liberation) dare to confront.

Then, all of a sudden, waiters and corner store operators were substituted by financial and energy officials who dressed in pinstriped suites and carry attaches full of contracts and cell phones with worldwide reach. That was news. The fact that some of the businesses were in high level profile of communications and commodities touching the daily lives of millions of Latin Americans produced a sort of resentment in the eyes of nationalistic observers who observed with alarm the passing of privatized industry to the new conquistadors. It remains to be seen if the current wave of populism will find a suitable prey in this sector. It also remains open for future analysis if the arrogant Spaniard has substituted the old-fashioned ugly American.

In any event, Latin American leaders could grab the opportunity to take the initiative and use this Ibero-American platform as an alternative, complementary setting to include the EU agenda towards Latin America, as expressed in the summits encompassing the European, Latin American and Caribbean states, that are to meet again in Vienna in May 2006. The Ibero-American Community, in essence, should be functioning as a lobby similar to the one that the French speaking counties have enjoyed in the African, Pacific, and Caribbean (ACP) bloc, before and after the accession of the former British colonies, when the UK membership altered considerably the nature of a bloc of aid-receiving countries that was earlier basically African.

In a way, replicating the uniqueness of the nature of the EU, the Ibero-American complex could exploit its lack of comparison and built strength from its isolating example. After all, other experiments in similar regions (the Arab world as the most obvious) that may show a cultural common fabric have been a failure that needs not to be repeated. Exporting a successful example of cooperation among countries only sharing heritage and not current conditions might be a thought to be considered. There is nothing to lose and potential partners in the hemisphere may find it profitable to join.

**Obstacles and challenges**

On the negative side, one still can detect a limited perception of the true potential of the Ibero-American process as a system. This is an additional expression sparingly used by some enthusiastic experts to describe its consistence and solidness, beyond the weakness of its cyclic performance around its summits. Moreover, the negative image includes of capability for selecting an agenda with a guarantee to be implemented with success.

This means that it should be equipped with a budget well above the funds designated to cover the payroll of the basic staff infrastructure. This budget should be used to cover expenses of the annual summits, as well as for administering the cooperation programs developed by the Ibero-
American process. Taking into account that the Latin American countries resist commitment for a common funding in more important forums than the Ibero-American process the prospects of success in this setting are extremely limited. Just about US $ 5 million to support the General Secretariat’s operations with a small staff of professionals in different degrees of government detachment is not an impressive banner to pitch the sustainability of the process. The Ibero-American complex will then suffer comparisons with the EU framework that enjoys considerable aid and trade resources with its own budget.

That also means that the process, if it really wants to shed the perception of Spanish dependency, has to drastically alter the budgetary contributions when Spain appears to pay more than 80% of the expenses and Portugal 1.41%, while some important Latin American countries are well below their real capabilities (Brazil 5.17%; Mexico 5.18%; Argentina 2.97%). At the end of 2004, some important countries (Venezuela and Brazil, among them) had not yet paid their contributions since 2001. Paradoxically, the need to avoid the appearance of a Spanish hegemony will not hide the obvious wish by Spain to prime this Latin American dimension as part of a wider world foreign policy. Much the same way as U.S. foreign aid cannot be seen simply as an altruistic, charitable agenda, the Ibero-American cultural setting and political and economic investment made by Spain should be understood as an integral part of foreign policy. The question remaining is: to what extend and with what limits?

In any event, one should report a contrast between the good intentions and positive diplomatic declarations issued by Latin American leaders and the ambivalent mischievous smiles that simultaneously welcome surveys and questioning of experts in the field, when asked about the prospects and feasibility of the process beyond its current shape. However, with the same guarded attitude not to be revealed in public, numerous Latin American political and economic leaders see the Ibero-American experiment as an alternative to balancing the obvious dependency of the United States overpowering security, military, and economic hegemony. Still, continental and world-wide realities force the same observers to look towards Washington for cues and moves.

In this sense, a rephrasing of a popular statement attributed to long lasting and authoritarian Mexican president Porfirio Díaz, for some Latin American countries the problem is to be so far from Spain and Europe and so close to the United States. Moreover, experts and leaders are not in agreement regarding the convenience and advantage of an alliance without conditions with Spain (Portugal is a much minor partner) if that implies causing friction with other European business and political partners that still have considerable weigh in Latin America. That category includes mainly France, Germany, and the United Kingdom, and, to a minor extent, Italy and the Netherlands, depending on business sectors and geographical location.

Regarding the conversion of the process in a more ambitious, intercontinental free trade or economic bloc, any temptation in this direction will encounter internal and external obstacles, in addition to the expected contrasts emanating from each of the individual actors, depending on their state of security and economic dependency. In view of the fractious state of the Western Hemisphere-wide Free Trade Area of the Americas (FTAA), the Ibero-American group is faced with certain alternatives, some offering advantages, but none free from risks. It is obvious that the continent offers two geographical alternatives, one led by the United States and the countries still willing to follow the path set in 1994 and the second composed of most of the MERCOSUR and Andean countries that bet for a South American bloc. The Ibero-American
group will have to opt for a hands-off attitude or betting for an alliance with the South-American side. What remains to be seen is what will be the attitude of the “dissidents” who know that their security and primary interests lie with the United States.

In this setting, within the Latin American context, each one of the members will first have to define each individual role in the sub-regional schemes (NAFTA, MERCOSUR, etc.) to which they belong. Then they will have to set the bloc aims and limitations, before embarking into an intercontinental linkage that could contradict the requirements and limitations of both the EU and the inter-American or Latin American frameworks. In view of the “red lines” posed by the profiles of national sovereignty in Latin America and the resistance for institutionalization of the modest intra-Latin America schemes, not much is to be expected from any design for the Ibero-American process to go beyond the current limits.

The message is clear and evidenced by the dramatic reduction of the status accorded to the SEGIB. On the one hand, very little will emanate from Latin America in the direction of creating a supranational unit with a minimum of autonomy to represent the bloc in world forums. On the other hand, funding appears to be lacking. Comparatively, a standard evaluation of international networks equipped by small or large staff is that institutions without political and financial power are reduced to simple bureaucracies. Enrique Iglesias will then have to walk a thin line to balance his mission for efficiency with avoiding overstepping on any sensitive toes. Although the status of observer at the United Nations is an improvement, it remains to be seen how that position will be accorded the representation of the group regarding measures and decisions. In this line of thought, the most formidable risk presented to the Ibero-American process will be the temptation of using it for national or personal gains, especially if its stature is enriched in the international setting. A move to radicalize it, if only in the discourse and verbal setting, may trigger a reaction of the moderate governments and the ones opposing its use for confrontational policies, especially if they target the interests of the United States. Keeping a low profile may in turn mean inertia and business as usual.

In any event, a key factor for getting some answers for this dilemma depends on the individual and overall results of the dozen elections to take place in Latin America by the end of 2006. If a majority of center-left and radical leftist government come to power and the incumbent presidents are consolidated, any kind of forum may seem to be good for deepening anti-U.S. postures. It remains to be seen if the Ibero-American system will become one. However, in the event of a continuation of a disdainful or erratic policy of the United States towards Latin America, Spain may interpret it as an invitation for political incursions in a continent where its economic interests are at stake. With the election of Evo Morales in Bolivia, his stopover in Madrid in early January in a pre-inauguration tour taken to Europe and Africa may indicate a signal in the direction of a confirmation for a more assertive Spanish policy in Latin America. Uncertainty regarding Spanish energy investments in the Andean country will then be a key factor in this case.

In conclusion, the project depends more on the good will and the positive evaluation done by the Latin American countries than on the potential and means supplied by Spain and its geopolitical ambitions. A key fitting argument is the perception that this move is generated in the United States and Canada. An option often followed in North America, especially in the United States, is that in principle any European intrusion in Latin America is considered as a violation of the remains of the Monroe Doctrine and suspect of presenting a counterbalance to the US
hegemony in the Western Hemisphere. When political incursion has been supplemented by economic enterprises, it has usually been considered as adding insult to injury. In general, then, what has been good for Europeans in America has been judged as bad for the United States. In a global economy this logic does not always apply. Economic partnership and loyal competition might be in the long run mutually profitable.

Canada, with its long tradition of combining economic activity and political cooperation with development aid and peace keeping operations, should aim at making the Ibero-American process an advantage and not a negative challenge. Still, it all depends on the outcome of the real interest of the Latin American countries in the upgrading of the Ibero-American process. In the event that a leftist wave takes over and then proceeds to use the forum as an anti-U.S. mechanism, the dilemma for Canada will be to choose between what has been very often an affordable policy of confronting Washington in limited issues such as Cuba and pondering about a global strategy in which much more is at stake. In any case, with popular pressure on the rise for stressing the differences in national identity with regards to the powerful southern neighbour, the Ibero-American system may offer a suitable channel.

In any case, the lack of regulatory definition regarding the status of observers and special guests for the Ibero-American summits and process has been accompanied by petitions to participate and individual requests seeking to be invited. The flexibility that exists in multilateral diplomacy will surely find creative solutions for there appears to be considerable outside interest in the process. This solution will certainly accommodate the inclusion of actors in North-America, the Caribbean, the African Portuguese countries and some other European states with Latin origin languages.
The large foreign direct investments (FDIs) of Spanish firms in Latin America need to be looked at from the broader perspective of the growth of the Spanish economy and important changes in specific industries and firms. The leaders of Spain’s main political parties have regarded the “integration of Spain in Europe” as the country’s main achievement in modern history. Integration was perceived by political, cultural and business elites as the best way to consolidate Spain’s young democracy and to promote the modernization of the economy. Spanish ascension to the European communities accelerated the process of liberalization of the Spanish economy.

Moreover, the decision to comply with the EMU Maastricht Treaty criteria led to the implementation of macro and microeconomic policies that resulted in fiscal consolidation, central bank independence, and wage moderation. A significant dynamic effect was the strengthening of the competitive position of Spanish firms. A strong pillar of the strategy of the Spanish government to increase the competitiveness of its firms has been to open the Spanish economy by eliminating restrictions to trade and investment (within the framework allowed by the European Union). By the 1980s Spain was already facing increasing competition for some of its main exports – clothing, textiles and leather. This situation convinced Spanish leaders to shift toward more capital-intensive industries requiring greater skills in the labour force but relying on standard technology – e.g. food, drinks and tobacco, transportation equipment, chemicals, industrial machinery and optics, steel and metal manufacturers, paper, graphic arts and publishing, and non-metal minerals, among others.

Key sectors and host regions
Since the Spanish government gradually eliminated the restrictions on FDI by Spanish enterprises between 1977 and 1992, Spanish FDI reached important proportions, making Spain the twelfth home country for FDI in the world in 2000 by “stock”. The “position” or “stock” of Spanish FDI abroad grew from US$1.931 billion in 1980, to US$15.652 billion in 1990, and to US$160.202 billion in 2000. This meant an increase of 8,294% in this period of twenty years, the fifth largest percent growth among the top home economies in the world.

Although the growth in amount of Spanish FDI abroad in this short period of time was very large, what made these investments even more interesting was the fact that they were very highly concentrated in two geographic areas mainly, the European Union and, especially, Latin America, where Spanish FDI flows surpassed those coming from the United States in 1999 and 2000. The United States was the main home to inward FDI in Latin America since the mid-twentieth century.

By the turn of the century, the largest seven Spanish multinational enterprises (names below) had assets worth US$283 billion and 128 million customers in Latin America, and they had become prominent actors in the economies of the region. For Latin American societies, the

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9 This section represents a summary of the research paper commissioned to Pablo Toral, Professor at Beloit College, WI. The full article is available on FOCAL’s website.
Spanish FDI since the 1990s was very important because in most cases Spanish firms operated in activities that were deemed as basic public services. The main firms and sectors were Telefónica in telecommunications, Banco Bilbao Vizcaya Argentaria (BBVA) and Banco Santander Central Hispano (SCH) in banking, Endesa, Iberdrola, and Unión Fenosa in public utilities, and Repsol-YPF in oil and gas. These were the largest firms in Spain in terms of market capitalization in 2005 and they generated about 70 percent of the amount of FDI that Spanish firms invested in Latin America since 1990 (if we include “holding” societies) (see table 1). This is important, because it shows that Spanish FDI in Latin America was highly concentrated in the hands of seven firms.

Table 1 Sectoral allocation of Spanish FDI in Latin America, 1980-2000, percentage

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<tbody>
<tr>
<td>Energy</td>
<td>0.12</td>
<td>0.23</td>
<td>9.20</td>
<td>22.70</td>
<td>17.39</td>
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<tr>
<td>Telecommunications</td>
<td>0.73</td>
<td>2.26</td>
<td>25.14</td>
<td>5.84</td>
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<td>Banking and finance</td>
<td>48.86</td>
<td>57.48</td>
<td>40.29</td>
<td>13.17</td>
<td>21.49</td>
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<tr>
<td>Holding</td>
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<td></td>
<td>17.09</td>
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<td>27.33</td>
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<tr>
<td>Total</td>
<td>49.71</td>
<td>59.96</td>
<td>74.63</td>
<td>(91.72)</td>
<td>41.71</td>
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</tbody>
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Source: Dirección General de Comercio e Inversiones, Secretaría de Estado de Comercio y Turismo, Spanish Ministry of the Economy.

Table 2 Geographic distribution of Spanish investment in Latin America and the Caribbean by country

<table>
<thead>
<tr>
<th>Country</th>
<th>BBVA</th>
<th>BSCH</th>
<th>Endesa</th>
<th>Iberdrola</th>
<th>Repsol-YPF</th>
<th>Telefónica</th>
<th>Ca.</th>
<th>Fenosa</th>
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<td>Islas Caimán</td>
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<td>Colombia</td>
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<td>Costa Rica</td>
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<tr>
<td>República Dominicana</td>
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For this reason, and because the entry of many of these firms occurred through the privatization of state-owned enterprises, their arrival was very visible, acquiring social and political significance. As a result, some of the political complaints against structural reforms, adjustment, and liberalization, turned into anti-Spanish cries of neocolonialism. Spanish firms also had a direct impact on many firms in the region, through the provision of credit, energy, or telecommunication systems. In other words, the competitiveness of many of the Latin American enterprises came to depend, to a certain degree, on the competitiveness of the products and services that the Spanish firms provided to them.

From the Spanish point of view, the FDI of Spanish firms in Latin America was important too, economically mainly and, to a lesser extent, politically and socially. Spanish FDI in Latin America was 0.96% of Spain's gross domestic product (GDP) in 1997, it rose to 1.63% in 1998, 4.62% in 1999, and 3.97% in 2000 and then dropped precipitously to 0.48% in 2001.

This precipitous drop after 1999 was in part due to the crisis that hit Argentina and the somber prospects for economic growth in the region as a whole and to the end of the big wave of investments by the seven largest Spanish MNEs mentioned above. The annual flows of FDI from Spain to Latin America in 2003 and 2004 (the last two years for which the Spanish government provided official statistics) were only 27% of the flows in 1999.

The weight of the three main sectors stabilized around 50% of Spanish FDI in Latin America. But some sectors, led by SMEs, became more important, especially the chemical industry, food and drinks, paper, automobile manufacturing, construction and hotel management and hospitality (see table 7). The main hosts for the firms operating in these industries were the large economies, mainly the Southern Cone countries (Argentina, Brazil, Chile and Uruguay), Venezuela and Mexico.

Table 3 Sectoral allocation of Spanish FDI in Latin America, 2000-2004, percentage
### Objectives and strategies

When managers of Spanish firms perceived that the conditions of operation in Latin America were similar to those in Spain, they invested in Latin America too. These conditions held in basic infrastructure sectors that had been heavily regulated by the state in Spain until the 1970s, 1980s, or 1990s. The firms were sometimes state monopolies (Telefónica and Repsol), other times they were partly state-owned firms with concessions to operate under conditions of monopoly over a specific geographic region (Endesa, Iberdrola and Unión Fenosa), and in the case of the BBVA and SCH, they were large firms operating in a sector shielded from foreign competition by law.

In the 1990s, the Spanish government began to liberalize these sectors, under the pressures of the European Union. First, the government began to privatize its state-owned firms gradually, Telefónica and Repsol among them. In 1997, the Spanish state sold the last stakes it held in both firms. The second process was the liberalization of the markets in which these firms operated (banking in 1978, and telecommunications, public utilities and oil markets in the second half of the 1990s). When the managers of the firms involved in these sectors learnt that liberalization was inevitable, they began to prepare for it. They believed the potential entrance of foreign competitors in Spain would make them lose market share. However, the fall of entry barriers was happening also outside of Spain. Therefore, companies chose to expand abroad to compensate for the possibility of reduced market share in their home economy.

When analyzing where to invest, they looked for countries in which they could find an environment as similar as possible to the one they had had in Spain in terms of development needs, so that they could replicate the same corporate experience they had had in Spain. They believed this similarity of environment would give them an advantage. Central and Eastern Europe, Africa, Asia and Latin America were opening up. In most of them, the development needs were similar to those in Spain. However, Latin America had an additional advantage, a shared culture. Therefore, the top managers of the Spanish firms concluded that they would have a better knowledge of the market there.
The governments of Latin America began a series of processes of liberalization and privatization in the late 1980s. Among the firms being privatized were those in banking, telecommunications, public utilities, oil and natural gas. One of the main reasons behind the privatization and liberalization of these sectors was the need to attract new technology. The productivity of the telephone, public utility, and oil firms had declined drastically since the 1970s in most countries, and in the 1990s the governments found themselves short of money to undertake the large investment projects needed to upgrade infrastructure. In other words, the expectations of economic growth generated demands for more energy. Technological developments increased the costs of upgrading the telecommunications infrastructure. The banking crises generated the need to regenerate the financial infrastructure. The governments did not have the resources to invest in improving services in these sectors. As a result, they could not make the investments required and decided to invite private firms, many of them foreign, to provide these services. The seven Spanish firms that took over most of the Latin American firms in these sectors believed they had the knowledge and technology to introduce the reforms required by the Latin American regulators.

To strengthen financial markets, policy-makers tried to attract firms with better programs to prevent defaults, as well as with the knowledge to diversify and widen financial and banking services. The Spanish banks participated actively in the development of pension fund management programs, mutual funds, the capitalization of the stock exchange and development of capital markets, the extension of banking services to more sectors of the population, etc. In the telephone industry, the governments wanted firms capable of extending the network, introducing the latest technologies to improve the quality of service, and new products, such as Internet and mobile telephony. It was important also to improve the productivity of the firms. Telefónica played this role. The same was true about the public utilities. The new entrants, specifically Endesa, Iberdrola and Unión Fenosa, were expected to provide the resources to increase generation of electricity, in order to keep up with domestic demand, and to improve the efficiency of the systems, in order to reduce environmental impact, reduce energy losses, and extend the service to new areas.

The SMEs that moved to Latin America in the second wave follow different strategies, and it is difficult to analyze them together. Most of them are relatively small family-owned firms that have grown in Spain since the 1940s and since the late 1990s decided to embark on an aggressive strategy of expansion outside of Spain. They chose Latin America given the cultural proximity and the perceived needs of the Latin American markets. Some of them made investments in Latin America to follow their partners from Spain who had already invested there. Others did not follow their partners, but they could benefit from the financial support of the large Spanish banks, BBVA and SCH, who encouraged Spanish SMEs to invest in Latin America by providing credit for their new Latin American ventures. The banks saw in the promotion of new Spanish FDIs in Latin America an opportunity to deepen business relationships with some of their “good clients”. In other words, they believed these were reliable partners.

Firms in the automobile industry took advantage of the fast development of the automobile industry in Spain since the 1960s. They became suppliers to the large North American and European automobile firms that opened plants in Spain and now decided to move to other markets, to continue to provide automobile supplies to their clients. They opened subsidiaries in Latin America, as well as in Eastern Europe.
The food and drink industry has been in Latin America for a long time, mainly through exports from Spain. Since the mid-1990s they decided to open production and distribution facilities in Latin America to develop a more aggressive strategy of growth.

Some firms in the tourist and construction industries can hardly qualify as SMEs, because some of them have grown considerably since the 1980s. Most of them, however, are still family businesses. Those in the hotel industry benefited from the large growth of tourism since the 1960s in the East and south of Spain. In the 1990s, they began developing new tourist infrastructure in Latin America and they began to promote some tourist destinations in Latin America and the Caribbean among European, North American and Latin American tourists. Spanish construction firms are mainly involved in large public works, such as road construction and operation (toll roads), and construction of power plants (some are part of the process of modernization of infrastructure and construction of new power plants undertaken by the large Spanish energy firms, as well as the hotels built by the Spanish firms in the tourist industry).

Spain’s Hemispheric Policy and Role of the Spanish Government in Promoting Spanish Firms

The Spanish government played an important part in the process of internationalisation of Spanish firms, by setting a deregulatory legal framework between 1977 and 1992, and pushing several publicly–owned Spanish companies to make investments outside Spain. The first step was the reduction of the legal requirements that outward capital flows had to go through. Until the mid–1970s, Spain had strong control mechanisms over capital movements to prevent capital flight, and investments outside the country had to be approved by the Spanish Council of Ministers. Reforms were introduced in 1977, 1979, 1986 and 1992 to make Spanish legislation comply with the stipulations of the European Union, which made the notification of the FDI for statistical purposes the only requirement (with no need of approval).

In addition to the liberalization of financial flows, the strategy of the Spanish government comprised a reform of the tax system, a number of public funds to subsidize or finance Spanish FDIs, a system of public insurance to protect investments from the risks of the host country, and bilateral and multilateral treaties for protection of investments. A tax reform to prevent double taxation was implemented in 1990, in compliance with EU Directive 435. The Spanish legislature exempted Spanish firms from the payment of taxes on distributed dividends, and deducted from the tax payable in Spain the amount that their subsidiaries already paid in the host country, when this amount was lower than that stipulated by Spanish law.

The Spanish government made a total of US$754 million worth of credit for FDI available through the Instituto de Crédito Oficial (ICO), the Ministry of Trade and Tourism, the Instituto de Comercio Exterior (ICEX), and the Spanish Company of Finance for Development (COFIDES). The state–owned Compañía Española de Seguro de Crédito a la Exportación (CESCE), began insuring the FDI of Spanish companies in 1974. The ‘Bilateral Agreements for Reciprocal Promotion and Protection of Investments’ (BARPPIs) sought to create a positive investment climate between Spain and the host countries. Between 1990 and 1995, Spain subscribed a BARPPI with most Spanish speaking countries of the Western Hemisphere.
Since Spanish FDI in Latin America peaked in 1999, led by the seven large MNEs discussed above, the government focused on the promotion of FDIs by SMEs. In addition to publicizing all of the mechanisms discussed above among SMEs, the government created a new fund to provide credit for FDIs by SMEs only. ICEX began to play a more active role through a series of programs that targeted SMEs mainly. ICEX uses the Spanish trade offices around the world to publicize Spanish firms, for export or FDIs. They identify “target markets” (those with growth potential or those in which they believed Spanish firms had the potential to do well) and organize “business fairs”. These fairs bring together representatives of Spanish SMEs. The goal is to familiarize them with the new markets and to try to facilitate contacts with local firms, in order to develop trade or investment links. ICEX also provides consulting services to small firms who do not have the resources to hire consultants in new markets.

**Future Prospects for Spanish Foreign Direct Investment in Latin America**

The first wave of large investments in Latin America for Spanish firms ended with the Argentinean crisis of 2001, opening a second wave or second generation of FDI. The crisis caused great losses to Spanish firms, leading many managers to realize that, in spite of similarities between the environments in which they operated in Spain and in Latin America, there were still great differences. The slowdown of the Latin American economies and the periodic crises, such as Argentina’s, in part due to macroeconomic imbalances and to the failure to consolidate the structural reforms initiated in the early 1990s, made the managers of the Spanish firms more cautious. They reduced their investments in Latin America, concentrating in Europe and the United States. Since 2001, no more large takeovers took place. The large firms that made the largest investments consolidated their strategies by continuing to increase the efficiency of their subsidiaries, but they refused to takeover new firms.

Among the new entrants in the second generation of Spanish MNEs there are two types of firms. First, those that had business ties to the first movers by way of supplying inputs, and, second, firms that had no relationship to the early entrants. The firms in the first group decided to invest in Latin America to be able to supply products or services to the first generation Spanish MNEs in Latin America, as they did in Spain. Those in the second group were small and medium enterprises, with no relation to first generation Spanish MNEs, whose managers decided to invest in Latin America to expand their market. The motivation for these investments was similar to those of the first generation: the managers believed that their products and services were competitive and would find a new niche in the Latin American markets. They also believed that the similarity between their industries in Latin America and Spain made it easy to adjust to the new market.

This pattern is likely to continue in the years to come. However, if there are no crises in any of the largest Latin American economies, some of the largest Spanish MNEs may still try to take over other local firms to expand. Some of them have not entered the main markets, or have not developed a strong subsidiary in them. This is the case of BBVA in Brazil, Endesa in Mexico, Telefónica in Venezuela and Mexico, and Repsol-YPF in Brazil, Mexico and Venezuela, partly due to regulatory constraints. Therefore, the expansion of Spanish firms in these countries will depend on whether the governments modify the legal framework regulating the participation of foreign firms in these industries. This is the case of the oil industry in Mexico and Venezuela.
The largest investments would be concentrated in the largest economies, mainly Brazil and Mexico and, to a lesser extent, Argentina, Chile and Venezuela.

The Spanish firms in Latin America (especially the banks) are also trying to attract FDI from other regions to Latin America, mainly from Europe and North America and since 2002, from Asia, mainly Japanese and, to a lesser extent, Chinese firms. The managers of Spanish firms believe they bring to the joint-venture their knowledge of the Latin American markets and their relations with local business, and political, economic, and social actors, among others.

**Implications for the Canadian Private Sector**

Latin America offers great challenges and opportunities for the Canadian private sector. The main challenge is the recurrent periodic economic crises in many Latin American economies. The result of these crises in the past has been very negative for many Canadian firms, who lost a lot of money. As a result, many decided to leave. The magnitude of the losses was so great that few Canadian managers with experience in Latin America in the 1980s saw the bold structural reforms implemented by governments across the region in the 1990s as an opportunity. Rather, they decided to wait and see. Many US firms with similar experiences in Latin America took the same approach. As a result, their managers were astonished when they saw the magnitude of the investments made by Spanish firms, who found little competition from the “more conservative/cautious” North American and European firms.

However, with the exception of Argentina in 2001, the Latin American economies have grown since the early 1990s. Sustained growth is one of the biggest opportunities for Canadian firms. The other one is the opportunity to supply their products and services in markets where competition is low and growth potential is high. This has been perhaps the main strategic success of the Spanish firms: early entrants found little local competition in growing industries.

There are several issues that need to be addressed to promote Canadian FDI in Latin America. The potential investors need to study the recent macroeconomic history of the Latin American economies. They will realize that the conditions today are very different from those that led to the crises of the 1990s. Macroeconomic indicators today are better. They also need to review the legal reforms introduced, in order to redefine the relationship between the state institutions and the private sector. Finally, they also need to review the new legal framework to protect foreign investors. Foreign investments receive most-favoured-nation status and, in case of expropriation, there are institutional guarantees for compensation. While there is public animosity among some sectors of the Latin American population against US and Spanish firms (both of them accused of neo-imperialism), the perception of Canadians in Latin America is very positive.

Canadian telecommunications operators face a difficult scenario in Latin America. Early entrants were given a period of monopoly and developed a broad network. The start-up costs for new entrants will be very high because they will have to develop their own infrastructure from scratch. Latin American governments are likely to encourage competition by forcing the incumbents to let new entrants use their infrastructure, but the latter will have to pay for the use of their network. However, Latin American governments intend to introduce more competition to force prices down. This may give new entrants bargaining power to extract a favourable regulatory framework.
The strategy of Spanish firms in the food and drink industry is to take advantage of some of the cultural and culinary similarities between Spain and Latin America. From this perspective, Spanish and Canadian firms may not necessarily be competing in the same sectors. Canadian firms face stiff competition from Spanish firms in the construction and hospitality industries. These “new entrants” have begun aggressive expansion strategies not only in Latin America, but also in North America. Spanish construction firms are building power plants and transportation infrastructure, mainly roads and airports. They take advantage of their connections with the Spanish energy MNEs, developed in Spain. The presence of Canadian firms in the Latin American energy markets is particularly important, since many of the Spanish firms in this industry, especially those developing oil and natural gas fields, will begin to supply larger amounts of oil and natural gas to the United States, and maybe Canada. Some of these Spanish firms have developed joint-ventures with US firms and/or Latin American state-owned hydrocarbons firms in the Trinidad and Tobago, Venezuela, and Brazil.

Canadian banks and financial firms have traditionally played a prominent role in Latin America. The Royal Bank of Canada and the Bank of Nova Scotia, for instance, developed large ventures in Latin America and the Caribbean at different times in the twentieth century. The Spanish banks began an aggressive strategy in the early 1990s in many areas, including retail banking, as well as wholesale banking, pension funds, mutual funds, insurance, mortgage, etc. Canadian banks and financial firms would have to make huge investments to be able to compete in retail banking. However, as economic conditions remain stable, they can be prominent players in wholesale banking.

Finally, Canadian firms will have a hard time competing with Spanish firms in some areas in which language creates important market barriers. This is the case of the publishing industry. Since the 1980s, Spanish firms have become the strongest players in this industry in the Spanish-speaking world, taking over from the traditional Argentinean and Mexican leaders. However, many European firms and some North American firms have expanded in Latin America through a Spanish subsidiary. This might also be a reasonable strategy for Canadian firms, in these industries. The growing prominence of the computer and software industry in the share of Spanish FDI in Latin America is in part due to language and cultural barriers. Several European and North American firms channel their Latin American strategies through a Spanish subsidiary. Canadian firms may also pursue this strategy directly through a subsidiary in Latin America.
Annex 4. Canadian Investment in Latin America

Fact Sheet:

- The stock of Canadian FDI abroad increased by 844% between 1980 and 2000, which was the 20th largest increase among the top home economies in the world. The outflow of Canadian FDI abroad in 2004 totalled $57.5 billion, with approximately 70% going to the United-States.

- Canada's outward stock of FDI stood at $438.4 billion in 2004, a 9.8% increase over the previous year.

- Major Canadian corporations presently investing in Latin America:
  - Chile: Falconbridge International, Hydro-Quebec International and Scotiabank
  - Mexico: Scotiabank
  - Peru: Barrick, Scotiabank

- Canadian FDI is heading increasingly towards developing countries and this is a phenomenon that has materialized in the last few decades.

- Countries with a relatively larger natural resource industry, such as Brazil and Chile, saw significant Canadian FDI. However, Canadian FDI is also heavily concentrated in the service sector.

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Top 15 Destinations of Canadian FDI (millions of dollars)

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<th>Ave(87-91)</th>
<th>Ave(99-03)</th>
<th>% of Total</th>
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<tr>
<td>United States</td>
<td>55.981</td>
<td>176.45</td>
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<td>United Kingdom</td>
<td>11.205</td>
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<td>Barbados</td>
<td>1.351</td>
<td>23.136</td>
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<tr>
<td>Ireland</td>
<td>1.173</td>
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<td>1.769</td>
<td>9.823</td>
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<tr>
<td>Bahamas</td>
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<td>Cayman Islands</td>
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<td>Hungary</td>
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<td>Brazil</td>
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<td>Germany</td>
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<td>Australia</td>
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Canadian Direct Investment Abroad by Sector (1999-2003)

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<tr>
<td>Energy and Minerals</td>
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<td>Machinery</td>
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<tr>
<td>Finance and Insurance</td>
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<tr>
<td>Services</td>
<td>15%</td>
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<td>Others</td>
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Canadian FDI in Latin America

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Canadian FDI Flows